Effective Management of Social Enterprises

Lessons from Businesses and Civil Society Organizations in Iberoamerica

A Collaborative Research Project of the
SOCIAL ENTERPRISE KNOWLEDGE NETWORK

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Foreword

The AVINA Foundation promotes leadership for sustainable development among civil society and business groups, mainly in Latin America. We got our start in 1994 from Swiss entrepreneur Stephan Schmidheiny, who also founded the World Business Council for Sustainable Development and the GrupoNueva holding company, with offices and factories throughout Latin America, with which we have many joint projects.

I mention this to suggest that, though a foundation, AVINA has deep roots in business and in commerce; we also strive to run our organization like an efficient business. Not only do we work with both companies and civil society organizations (CSOs), but one of our main activities is building bridges of cooperation between entrepreneurs in these two sectors, developing powerful partnerships for sustainable progress.

Thus we were receptive when Harvard Business School Professor James Austin approached us in 2000 with the idea of setting up an alliance of business schools in Latin America and Spain to both teach and study social enterprises. These are defined in this book as activities undertaken with the explicit purpose of generating social value. Such enterprises are usually associated with CSOs, but they are increasingly being undertaken by companies, in forms ranging from philanthropy to real business projects meant to improve lives while improving corporate bottom lines.

The alliance, which began operating the following year, became known as the Social Enterprise Knowledge Network (SEKN). The product of SEKN teamwork, *Effective Management of Social Enterprises,* is path-breaking in capturing and analyzing smart social enterprise practices in Latin America. No other publication has evaluated simultaneously and comparatively how 20 leading NGOs and 20 leading businesses in the region and in Spain have planned, approached, and implemented their social actions.

The book advances the frontiers of knowledge and practice by documenting the realities of social enterprise experience in the region, offering insights on intelligent practices, providing conceptual management frameworks for the key elements of high-performing social enterprises, and identifying common areas of success in both business and CSO operations.

The book is designed not simply to be read, but to be acted upon. It looks at leadership, strategy, organizational culture and values, organizational structure, human resources, funding, governance, and performance measurement. It explains that each chapter's conceptual framework can serve the reader "as a useful way to think about and analyze each of these key practice areas." Entrepreneurs anywhere can easily lift lessons and examples to apply in their own organizations.

As interesting as the contents are the methods of production. The book is a massive collaboration in which 10 business schools placed their research into a common pool.

SEKN, which entered its third research cycle in the middle of 2005, has produced several other books. The SEKN member schools have taught over 103 courses to more than 3,280 students. They have produced 45 executive training programs that have reached 3,060 executives.

SEKN set out to persuade the business schools to broaden their business management programs to change attitudes, refine skills, and modify behavior to create stronger synergies between an invigorated society and a more responsible corporate sector. It has succeeded beyond our most optimistic expectations.

In doing its research and producing its case studies, SEKN has also contributed to the strengthening of many of the projects it was examining. This book of management science also has its very human and dramatic side, with tales of leaders making courageous decisions under great pressure.

On behalf of AVINA, I wish to add our thanks to all the university presidents, deans, professors, and researchers whom Professor James Austin, on behalf of the SEKN Editorial Committee, mentions in the preface. He writes that "it is our hope that this book will contribute to the advancement of the knowledge frontiers of social enterprise, strengthen management practice, and stimulate further research and learning."

From AVINA's perspective, we are confident that it will. This is scholarship at its best, and like all the best scholarship, it has the capacity to change the ways in which people understand and act.

Brizio Biondi-Morra
President
AVINA Foundation

Preface

This book is the collective product of the Social Enterprise Knowledge Network (SEKN), an international research partnership composed of leading business schools in Iberoamerica and the Harvard Business School, with the collaboration of the AVINA Foundation.

The mission of SEKN is *to advance the frontiers of knowledge and practice in social enterprise and strengthen business schools' abilities to serve their communities*, through:

- rigorous collaborative research,
- shared learning, and
- excellence in participant-centered teaching.

The member schools of SEKN that produced this book were:

- Escuela de Graduados en Administración y Dirección de Empresas (henceforth EGADE), Mexico
- Escuela Superior de Administración y Dirección de Empresas (henceforth ESADE), Spain
- Fundação Getulio Vargas (henceforth FGV), Brazil
- Harvard Business School (henceforth HBS), U.S.A.
- Instituto de Estudios Superiores de Administración (henceforth IESA), Venezuela
- Instituto Centroamericano de Administración de Empresas (henceforth INCAE), Costa Rica
- Pontificia Universidad Católica de Chile
- Universidad de los Andes, Colombia
- Universidad del Pacífico, Peru
- Universidad de San Andrés, Argentina
- Universidade de São Paulo, Brazil

The material and intellectual support that AVINA extended to the SEKN schools was essential to producing this book. AVINA's extensive network of social leaders and its deep knowledge of social processes in Iberoamerica enriched our own research process. We are particularly grateful for the efforts of Brizio Biondi-Morra, Antonio Lobo, Aurelia Garrido, and Nathalia Mesa.

SEKN's research is field-based and practice-oriented. It involves deep and detailed analyses of the practice of business and nonprofit organiza-

tions. The researchers carefully observe and study the actions and dynamics of social enterprises and their members in order to understand managerial phenomena—both challenges, and approaches for effectively dealing with them. Our previous book, *Social Partnering in Latin America: Lessons Drawn from Collaborations of Businesses and Civil Society Organizations* (Harvard University Press 2004),[1] focused on collaborations between businesses and nonprofit organizations. In addition to its books, SEKN also develops pedagogical materials in the form of case studies that provide more detailed examination of the individual institutions studied. Over sixty social enterprise cases are available through Harvard Business School Publishing (*www.hbsp.harvard.edu*).

Whereas our book on *Social Partnering* studied 24 collaborations, this book is based on more extensive and complex research. It examines 40 enterprises, half of them businesses and half nonprofits, all considered by their peers to be high performers in the social enterprise arena. We are deeply indebted to these outstanding organizations for their generosity in sharing their experiences, time, and insights with our research teams from ten different countries. The willingness of these organizations to open themselves to scrutiny so that others may learn is further evidence of their outstanding leadership.

Mounting a hemispheric and transatlantic research effort of this magnitude can only occur if there is strong institutional support from the research institutions. We are appreciative of the deep commitment of the member schools to the SEKN and to the process of collaborative research. The leadership of the schools' deans and presidents and the able assistance of the collaborating staffs have been absolutely vital to our work.

This book is the result of extraordinary professional collaboration among the SEKN research teams at each school. It is a collective product of the contributors listed at the beginning of the book and their institutions. All schools contributed their field-based country research to the common data pool from which we derived our frameworks, analyses, and conclusions. While various teams had primary responsibilities for distinct parts of the book, all were involved in the generation of the final product. Carrying out comparative and integrated analysis across countries and

1. Also available in Spanish: James Austin et al., *Alianzas sociales en América Latina. Enseñanzas extraídas de colaboraciones entre el sector privado y organizaciones de la sociedad civil* (Washington, DC: Inter-American Development Bank & David Rockefeller Center for Latin American Studies, Harvard University, 2005).

institutions is a complex and very demanding task. This has been achieved thanks to the professionalism of the many contributing team members and to the exceptional leadership of the SEKN team leaders: Gerardo Lozano (EGADE), Alfred Vernis (ESADE), Rubens da Costa Santos and Mario Aquino Alves (Fundação Getulio Vargas), Patricia Márquez (IESA), Enrique Ogliastri (INCAE), Mladen Koljatic (Pontificia Universidad Católica de Chile), Roberto Gutiérrez (Universidad de Los Andes), Gabriel Berger (Universidad de San Andrés), and Rosa Maria Fischer (Universidade de São Paulo). Special acknowledgment goes to Ezequiel Reficco of the Harvard Business School, not only for his contribution but also for his skilled editorial effort in integrating the work of the teams into the final manuscript. Our appreciation also goes to Gustavo Herrero, Michael Chu, and "Dutch" Leonard, of the Harvard Business School, for their critical eyes, constructive comments, and rich advice throughout. Finally, another special recognition goes to SEKN Editorial Committee, for skillfully steering the challenge of collective knowledge creation.

It is our hope that this book will contribute to the expansion of knowledge about social enterprise, strengthen management practice, and stimulate further research and learning. We again express our gratitude to all those many individuals and institutions that have enabled and accompanied us on this journey to contribute to the well-being of our societies.

James E. Austin
Snider Professor of Business Administration
Harvard Business School
Boston, Massachusetts

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The Social Enterprise Approach

The business of businesses is, increasingly, the creation of social value together with economic value. Part of the strategy of leading companies is to address social problems and seek a better understanding of the milieu in which they operate. Conversely, large numbers of Civil Society Organizations (CSOs)[1] strive to gain new managerial skills that will enable them to improve social development performance. Consider the following examples drawn from across Iberoamerica:

- The jangling of his telephone awoke Alberto Vollmer, CEO of Venezuela's largest rum producer. The news was disturbing: 400 homeless families had invaded the company's sugar estate. Rather than call the police to evict the invaders, however, Alberto converted the crisis into an opportunity for starting a new dialogue with the neighboring community, and shifted the company's strategy toward creating a strategic constructive alliance with these external stakeholders.

- Maver Laboratory, Chile's leading over-the-counter pharmaceutical manufacturer, launched a social investment program that would go beyond simply generating goodwill. The firm undertook an innovative form of brand-building for its major product through which the company would, in deeds and words, show the community that it was deeply committed to social betterment.

- Alpina, a leading Colombian food processor, decided to go beyond traditional philanthropy and turn corporate social responsibility into a core competence of the firm. In a similar vein, Hocol, the country's most profitable company in 2003, set itself the goal of generating well-being in the remote area where it produced oil by collaborating closely with community groups and local government.

- Brazil's Orsa Group, a major pulp and paper producer, destined 1 percent of its revenue to fund social projects. That distinctive dimension of its strategy enabled it to outbid a Canadian multi-

national in the competition for a state-owned plant slated for privatization.

CSOs throughout Iberoamerica are growing in numbers and importance as they come up with innovative solutions to pressing social problems and ways to ensure financial sustainability of their efforts:

- In El Salvador, most people in the rural community of La Loma had no access to drinking water and suffered from poor health. Rather than wait for a distant government to solve their problem, community leaders founded a grass-roots organization— ACOSAMA. Through self-help, members of the community managed to mobilize resources and put in an improved water supply.

- The Argentine Foundation for Social Housing (FPVS) had successfully launched a micro-lending program that enabled thousands of poor families to improve their dwellings. When the country's economic crisis suddenly rendered the program inoperative, FPVS built on its institutional capability to forge an innovative strategy for providing affordable natural gas connections to homes in poor communities.

- The Chilean Safety Association (ACHS) was founded in 1958 to improve worker safety. By 2005 it was the country's leading provider of work-related accident and health insurance, operating an extensive network of medical facilities. The nonprofit's quality of care and management efficiency was widely viewed as exemplary.

- The Spanish island of Minorca features a rich but fragile ecosystem. A CSO set up a broad-based membership organization to advocate, educate, and promote the island's environmental protection. The group's successful efforts have been internationally recognized with multiple awards.

The foregoing sample businesses and CSOs are among the 40 leading enterprises throughout Latin America and Spain engaged in innovative social action that SEKN examined in depth. Much can be learned from their experiences and smart practices.

Many consider social actions to be the exclusive realm of CSOs and governments, excluding business from sharing in the task of addressing a common need. Our concept of **social enterprise** shows how business, working on its own or partnering with government and civil service organizations, may also contribute to bettering the course of mankind.

Businesses, of course, contribute to social welfare by providing goods and services sought by consumers, generating employment, and paying taxes to fund public services. These benefits are inherent to doing business, but they do not turn business into a social enterprise. On the other hand, when businesses undertake actions with the explicit purpose of generating social value, they enter the realm of social enterprise. Such actions hold the potential for generating a wide range of benefits for companies, from consumer appeal to improved government relations, new product development, knowledge of the market, and success in employee recruitment, motivation, and retention.

Accordingly, the issue is not whether a company's motivation is an altruistic or a more utilitarian form of enlightened self-interest; when undertaking a social enterprise, there is explicit intent to create social betterment by mobilizing and skillfully allocating company resources. Social betterment in fact improves the context in which a company operates and thus enables businesses to benefit directly from social initiatives they help support.

Whereas most CSOs focus entirely on producing goods or services aimed at some form of social betterment, a business-based social enterprise functions within a company's overall operations that are dedicated to social value creation. This study spotlights that aspect of business practice, and examines the relationship between a company's business strategy and its social strategy and activities. Analogously, many CSOs have launched income-generating activities that are not necessarily linked to their social missions, but are means for mobilizing funds needed by the organizations to survive. That nexus is similarly relevant.

Core Questions

Our focus of analysis in this book is *social enterprise*, which encompasses the social initiatives of both CSOs and business firms, as explained earlier. Governments also engage in a wide variety of social enterprise activities that often involve company or CSO relationships, but such projects lie beyond the scope of our research. This book represents an effort to study a selection of CSOs and businesses that seek to serve their communities in innovative and effective ways. We will examine the management practices employed by these organizations to provide effective solutions to community needs. The first core question we address is:

What are the key success factors and smart practices that led these organizations to excel?

The practice of social enterprise management in Latin America and Spain has received relatively little attention. This book examines the practices employed by a sample of Iberoamerican social and business organizations that have achieved superior social performance.

Traditionally, the social initiatives of CSOs and companies have been studied separately, on the basis of the assumption that the ownership structure of the two kinds of organizations does not allow much room for comparison. Substantial differences certainly exist between the two worlds of business enterprise and CSO, but our research sought to discover if there is also ground for significant mutual learning across sectors. Thus, our second core research question is:

What are the differences and similarities between social enterprise practices of CSOs and businesses?

The comparative analysis we undertake represents a pioneering effort to identify and understand the commonalities and differences of social enterprise undertakings across companies and nonprofits. To date, no published study has examined and compared the "smart practices" of CSOs and business firms.

Nature of the Study

Because our quest was to identify factors that contribute to superior performance by social enterprises, we made a selection of such organizations. To perform is to accomplish something as promised or expected, so high-performers could be defined as those able to meet the expectations of their stakeholders. Accordingly, we asked a broad spectrum of well-regarded individuals and organizations working on social issues to tell us which organizations are known to meet the expectations of their stakeholders consistently. The results of this first round of inquiry allowed us to identify those performers that, in the eyes of their peers in each nation, were perceived as clearly outstanding and hence worth studying. Our final sample included 20 CSOs and 20 companies operating in Mexico, Central America, Venezuela, Colombia, Peru, Chile, Argentina, Brazil, and Spain.

SEKN teams based in each of the participating institutions carried out field-based research for each organization selected for study, by using a common methodology and protocol. A first step was to review the available literature on factors considered to contribute to high performance in social enterprises. Following that, the researchers examined privileged

documents of the selected organizations and held extensive, in-depth interviews, leading to the research teams' preparation and exchange of analytical studies for each company or CSO. Management practices that appeared to explain the organization's success were a key focus of attention. These analytical studies were then examined in order to identify commonalities and distinguishing features across the sample, explicitly comparing CSOs and business firms.

Given the small size and selectiveness of our sample, the findings should not be viewed as being representative of either kind of social enterprise, whether company or CSO. Our purpose was to identify smart approaches and practices from which both academics and practitioners can learn, as well as to point to important avenues for further research. In our analyses and commentary we sometimes ventured beyond strict interpretation of the assembled data and speculated about managerial implications, a move which we hope will be useful to practitioners and also lay the groundwork for researchers to frame hypotheses and questions for future study.

A Mapping Framework

The research process was guided by a general framework comprised of what were deemed the core factors underlying social enterprise management. The available literature on successful social enterprises suggested relevant areas for exploring smart practices contributing to superior performance. Subsequently, interactive discussion by participating research teams across countries enabled us to adjust and refine a mapping framework that provided the structure for the book, as well as a straightforward way for practitioners to envision the main managerial variables and their interrelationships.

The first characteristic of the framework is that it is holistic. Our research confirms that high performance is not the result of any specific factor, such as charismatic leadership, for example, nor of any other magic recipe. Rather, it derives from the coherent integration of a constellation of factors. The framework consists of four general elements listed below: purpose, integrative drivers, implementing mechanisms, and contextual forces.

- **Purpose.** The core purpose of social enterprise is to create value for the betterment of society. This aim lies at the center of the framework and is the end toward which all other elements in the framework must contribute. Greater alignment of these elements with the central purpose produces higher organizational coherence which contributes to superior performance.

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- **Integrative Drivers.** Our findings revealed that three managerial components served a primary function of creating organizational coherence with the core social purpose: leadership, strategy, and organizational culture.

- **Implementing Mechanisms.** Smart practices in five core managerial areas were vital to implement the social enterprise strategy effectively: organizational structure and processes, human resources, financing, governance, and performance measurement.

- **Contextual Forces.** The context in which organizations operate creates constraints and opportunities. Performance is shaped by a capability to understand and adapt to the dynamics of political, economic, social, technological, environmental, and demographic forces.

The framework we developed, showing the various aspects examined as a basis for assessing how each contributes to high performance, is presented in Figure 1.1.

Figure 1.1
A Mapping Framework
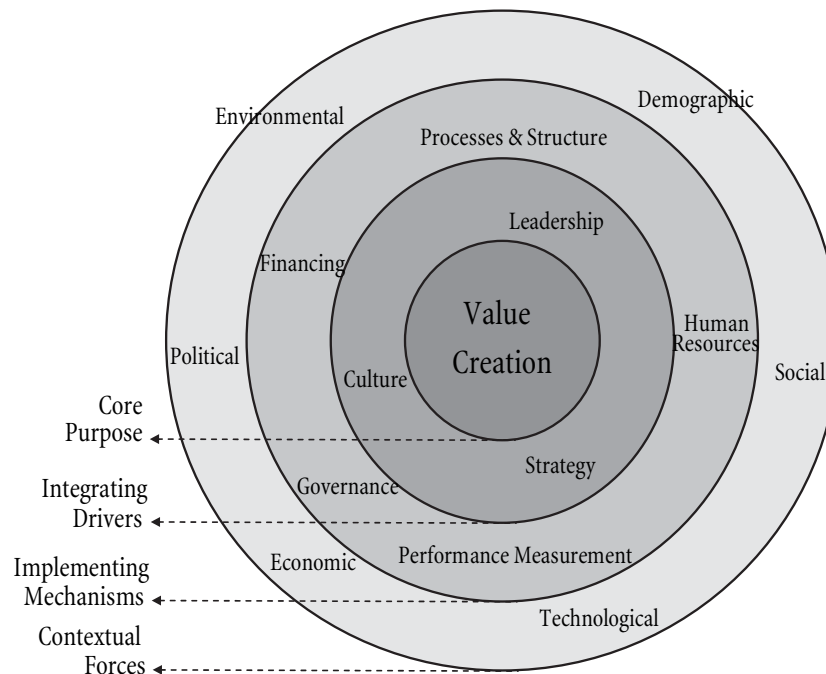
Organization of the Book

The book is structured around the variables presented in the foregoing mapping framework. The contextual forces appear as shaping elements throughout the book. Chapters 2, 3, and 4 examine the Integrative Drivers: Leadership, Strategy, and Organizational Culture.

- *Chapter 2.* Social enterprises succeed under the **leadership** of a few individuals. The phenomenon of leadership is at once a set of *skills* and of *roles and tasks*, which must adjust to varying phases of organizational evolution of social enterprises. They are (1) startup, (2) institutionalization, (3) decentralization, and (4) diversification, expansion, and consolidation.

- *Chapter 3.* Sound leadership is but a beginning; only through a carefully articulated **strategy** may social enterprises carry out transformations that prove to be sustainable and enduring. We explore the relation between strategy and mission, the importance of strategic planning and its role in the creation of competitive or institutional advantage, as well as strategy as an adjustment device that allows the organization to adapt to internal and external change. Effective social enterprises successfully combine social and economic imperatives.

- *Chapter 4.* Carrying out such a delicate balance requires a lubricant to allow the different parts of an enterprise to work together seamlessly. That role is played by the **organization's culture** and values, which prescribe behavioral norms that permit organizations to deal with internal and external challenges by showing their members an effective way of perceiving and thinking through emerging problems.

The next five chapters deal with each of the Implementing Mechanisms used by leaders to execute the strategy with the cohesive support of the organization's culture: organizational structure, human resources, financing, governance, and performance measurement.

- *Chapter 5.* **Organizational structure** governs the execution of the social enterprise's strategy. Leaders choose from among alternative options the structure that is best aligned with the organization's mission and cultural values.

- *Chapter 6.* Organizations need to put in place policies that will attract, retain, and develop a team of **human resources** able to

deliver superior performance, in line with the organization's strategic objectives and culture. The resulting quality of its management team is a core determinant of the organization's capability to shape and learn from its intellectual capital.

- *Chapter 7.* Assembling a set of brilliant individuals is no guarantee that the desired results can be achieved. No enterprise can deliver sustainable results without sound **funding** mechanisms. Traditionally, organizations took it for granted that social value was funded by disinterested philanthropy. Although that remains the case for many companies and CSOs, a new breed of managers, drawn from both the private and social sectors, are putting in place revenue-generating strategies that resort to market mechanisms to fund social enterprise.

- *Chapter 8.* The model of **governance** may be either an enabler or a hindrance for social enterprise. Governance may be shaped to facilitate access to human and financial resources, legitimize the initiative, and gain credibility vis-à-vis critical stakeholders whose cooperation is essential for the organization to attain its strategic objectives.

- *Chapter 9.* Highly effective social enterprises learn from their experiences, and feed their strategies with the lessons learned. A managerially oriented system of **performance measurement** contributes to superior performance in social enterprises. Similarly, identifying and quantifying key measures of the creation of social and economic value are among the most complex challenges in social enterprise.

The content of chapters 2 through 9 is organized around a similar format: (a) definition and importance of a given variable, (b) conceptual or analytical framework for examining that variable, (c) smart practices identified, and (d) relevant lessons learned. Each practice that is identified is substantiated and illuminated by specific examples from both CSOs and companies. Chapter 10 takes us back to the core of our framework and focuses on value creation—on how to reflect on and align social and economic value. Our study closes with an integrative chapter that draws out cross-cutting dimensions, including those derived from comparing the social enterprise undertakings of businesses and CSOs.

The Protagonists

Our in-depth studies of 20 CSOs and 20 company-based social enterprises deemed to be high-performing organizations spotlight the challenges that each faced and the smart practices it deployed. None is presented as a model to be strictly emulated. Although all are considered by their peers as exemplary organizations, all recognize that they have imperfections and room for improvement. Still, each is deeply committed to strive for improved performance. Studying these enterprises provided a wealth of information from which both practitioners and academics can learn. It may be added that the willingness of these organizations to share their experience by participating in this study is evidence of their commitment to contribute to the greater good.

Because they are the real protagonists in this book, we would like to introduce them briefly to the reader now so that you can begin to know the cast of organizational characters starring in the subsequent play. This listing of the 40 social enterprises will also serve as a reference place in the book should you need to refresh your memory about an organization when you encounter it in the chapters. The organizations will be presented by country and the SEKN member institution that was responsible for the primary research of those organizations.

Argentina (Universidad de San Andrés)

The *Fundación Crear Vale la Pena* ("Creating is Worthwhile" Foundation) was established in 1993. Its mission is to employ art education and artistic outputs to promote the social advancement of disadvantaged individuals. The organization operates under the assumption that art can be a powerful instrument in building individual and collective identity. To that end, this CSO has built community cultural centers in low-income neighborhoods, which were then integrated within broader cultural networks. Organization members value its open and participative leadership style, which has fostered commitment and a sense of ownership.

The *Fundación Pro Vivienda Social* (Foundation for Social Housing, henceforth FPVS) was founded in 1992 by a group of business leaders who intended to improve the living conditions of the poor by means of better housing. In the first five years of operation, 5,540 families participated in 3,160 collective loans, for a total of approximately $8,000,000. Following Argentina's economic crisis in 2001–2002, demand for the foundation's program declined, leading to a major strategic reorientation. FPVS now

sought to provide natural gas to communities where it had previously pro-
moted home improvement, thus playing a strategic role between the pub-
lic utility and poor communities.

The *Fundación Arcor* (Arcor Foundation) is the corporate foundation of
an Argentine company that today is the world's largest producer and South
America's largest exporter of hard candy. In 1991 the company set up the
foundation as a symbol of its commitment to the community, focusing on
children's education. The foundation seeks out projects that will create high
social value and hold the potential of becoming self-sustainable. Since its
creation, the foundation's programs have reached over 600,000 people.

The *Fundación Acindar* (Acindar Foundation) was founded in 1952 as
the corporate foundation of Acindar S.A., leader of Argentina's steel indus-
try. This company foundation carries out programs in every community
where the firm operates industrial facilities. The foundation also operates
in other regions through partnerships. The work of the company through
its foundation features a highly efficient and focused operation in the area
of education.

Brazil (*Fundação Getulio Vargas*)

The *Fundação Abrinq pelos Direitos da Criança e do Adolescente* (Abrinq
Foundation for the Rights of Children and Adolescents) is a CSO charged
with the mission of promoting the basic rights of youngsters and improv-
ing their living conditions. Having been founded by business leaders,
Abrinq developed strong management systems and had good access to
extensive networks of assistance and influence. This contributed to its
effectiveness in reaching its objectives and gained it a reputation for excel-
lence both nationally and internationally.

The *Comitê para Democratização da Informática* (Committee for the
Democratization of Information Technology) promotes access to infor-
mation technology (IT) as a way of building up and fostering the rights of
citizenship among deprived sectors of society. The organization was
quickly able to scale up its operations by means of an innovative model of
social franchises.

The *Grupo Abril* (April Group) is a large media conglomerate that spans
publishing, Internet services, cable TV, and database marketing. The group
carries out social initiatives through the Victor Civita Foundation, estab-
lished by the company's founder.

The *Grupo D. Paschoal* (D. Paschoal Group) is a diversified conglomer-
ate that distributes tires, automotive parts, organic coffee, and IT services,
among others. Facing mounting pressures from regulatory public agencies,

the company put in place an environmental protection program to collect and recycle used tires and other automotive waste materials, and generated new business opportunities from recycling.

Brazil (Universidade de São Paulo)

Corrente Viva (Living Chain) forges partnerships with other CSOs as well as with like-minded private businesses and public agencies, which may share the objective of strengthening civil society and promoting social change in the state of São Paulo. Established in 2000 by some 31 CSOs, Corrente Viva is currently shaping a new, more participative institutional structure and governance.

The *Instituto Brasileiro de Defesa do Consumidor* (Brazilian Institute for the Defense of the Consumer, henceforth IDEC) was founded in São Paulo in 1987 to promote consumer rights by means of education and information. Since 2003, IDEC restructured itself to become self-sustaining by means of marketing and services, and thus generates both social and economic value.

The *Grupo Orsa* (Orsa Group) is Brazil's third largest pulp, paper, and corrugated carton producer. Social programs are channeled through the Orsa Foundation, which obtains 1 percent of Orsa's revenue. The foundation focuses on the health and education needs of low-income children and adolescents, most notably in the areas of education, health, and social development, The social programs run by the foundation were closely aligned with the strategy of some of the group's companies—in particular, of Jarí Celulosa and Orsa Florestal.

By 2003 the *Companhia Samarco* (Samarco Company) was a leading world producer of mineral iron pellets to be shipped by means of a 400-km.-long pipeline that ran through poor communities. The company designed a program to map the needs of these communities and partner with them in finding and implementing collaborative solutions for pressing problems.

Central America (INCAE)

The *Asociación Comunal de Salud, Agua y Medio Ambiente* (The Community Association for Health, Water, and Environment, henceforth ACOSAMA) is a grass-roots nonprofit organization set up by the Salvadoran community of La Loma to operate and manage public services. About one half of El Salvador's population had no access to drinkable water; ACOSAMA attracted national attention by showing how a community could organize itself to improve living conditions.

The *Instituto Nacional de Biodiversidad* (National Institute of Biodiversity, henceforth INBio) was established in 1989 to promote awareness of the country's biodiversity and foster nature conservation. By partnering with private enterprise and public agencies, INBio took care of the nation's unique environmental assets and promoted the organization's mission, which included the preparation of a biodiversity inventory and the development of INBio Park.

Pantaleón is a leading, vertically integrated sugar producer in Central America. It also generates electricity from sugar cane bark. Pantaleón implemented a number of sustainable programs to improve the quality of life of its workforce and the surrounding communities, leading to positive outcomes on both health and productivity. Pantaleón's social practices were considered a benchmark by its peers and tended to be imitated.

The CSU-CCA Group controlled both the *Corporación Supermercados Unidos* (henceforth CSU), the leading supermarket in Costa Rica, and the *Corporación de Compañías Agroindustriales* (henceforth CCA), dedicated to marketing various products under CSU private brands. The company developed an approach that effectively integrated its social investment activities into its core business strategy.

Chile (Pontificia Universidad Católica de Chile)

The *Corporación de Desarrollo Social del Sector Rural* (Social Development Corporation for the Rural Sector, henceforth Codesser) was founded in 1976. It started out by running rural secondary schools and subsequently expanded to other educational ventures administered in partnership with other CSOs. By the end of 2002, Codesser operated 20 educational institutions throughout Chile, offering free instruction and achieving outstanding educational results, as measured by the high employment rate of its 10,000 alumni.

The *Asociación Chilena de Seguridad* (Chilean Safety Association, henceforth ACHS) was founded in 1958 to improve work safety in Chilean companies. By 2004 it had become the country's leading work-related accident and health insurance company, operating 7 hospitals, 27 clinics, and 70 outpatient facilities, all recognized for their efficiency and quality.

The *Fundación Tapsin* (Tapsin Foundation) was founded in 2002 by Chile's leading over-the-counter pharmaceutical manufacturer *Laboratorios Maver* (Maver Laboratories), with the goal of building a brand that would through words and deeds project an image of community betterment.

The *Coca-Cola Foundation* was created in 1991 by the Coca-Cola Company and its local bottlers to celebrate the fiftieth anniversary of the

company's presence in Chile. The foundation focuses on education for low-income students and implements the cause nationwide through its bottlers.

Colombia (Universidad de Los Andes)

The *Asociación Probienestar de la Familia Colombiana* (Colombian Association for the Well-being of the Colombian Family, henceforth Profamilia) has offered sexual and reproductive health services since 1965. Profamilia's original mission centered on family planning, but the CSO now offers a broader range of sexual and reproductive health services. It is the largest organization of its kind in Colombia—second only at the global level to the Planned Parenthood Federation of America—to find organizational ways to maintain the quality and efficiency of its services despite its growth.

The *Caja Colombiana de Subsidio Familiar* (Colombian Family Subsidy Fund, henceforth Colsubsidio) was founded in 1957 by Bogotá business leaders as a CSO to administer family welfare subsidies that were mandated by law (4 percent of payroll). By 2003, Colsubsidio practices in operating retail outlets, health facilities, housing, and education became a benchmark for its competitors. Its annual revenue of $280 million is drawn from 18,761 affiliated companies with about half a million workers.

Alpina S.A. is a leading Colombian food processor founded in 1945, which in recent years expanded operations to include Ecuador and Venezuela and which has an annual revenue of $189 million. From the start the company carried out social programs for its workforce and nearby communities, but it has recently turned corporate social responsibility into a core organizational competence, reaching out to a broader range of stakeholders.

Hocol S.A., an oil producer**,** had by 2003 become the most profitable of Colombia's largest 100 companies; in that year, the company participated in almost 50 percent of oil exploration activity in Colombia, and its model of operations had turned it into a sought-after partner by the multinationals that dominated the industry. The company has set for itself the goal of generating the well-being and development in the communities where it operates. To attain this goal, it developed a trilateral model based on the collaboration of community, company, and government. By giving each a say in the planning, funding, execution, and evaluation of its social initiatives, the company maximized its impact and established a truly collaborative culture with its stakeholders.

Mexico (EGADE)

The *Fundación del Empresariado Chihuahuense, A.C.* (Chihuahua Business Foundation, henceforth FECHAC) was established as a response to the tornado that ripped through the city of Chihuahua in 1990. The sheer magnitude of the damage prompted the city's business leaders to set up an aid agency, and effectiveness of those efforts led sponsors to continue working together for the social good. As of 2005, FECHAC had become a CSO whose 38,000 business leaders work with representatives of civil society and public officials in developing programs for the local poor. One of their most successful initiatives has been the training of and funding for small-scale business entrepreneurs and rural producers.

The *Fundación Comunitaria Oaxaca* (Oaxacan Community Foundation, henceforth FCO) has pioneered the idea that every community member shares a responsibility to work towards the solution of regional problems. FCO plays a convening role, bringing together a number of organizations from different sectors with the common goal of investing in social projects and sharing know-how in project evaluation, performance management, and impact evaluation.

CEMEX México, a leading cement producer, was the main subsidiary of CEMEX Corporation, the world's third largest cement company. After years of running paternalistic social initiatives, the company aligned its CSR initiatives with business strategy by means of what they called "responsible competitiveness." Its many initiatives now benefit thousands of poor home owners and the move has strengthened the company's market position.

The *Cervecería Cuauhtémoc Moctezuma* (Cuauhtémoc Moctezuma Brewery, henceforth CCM), founded in 1890, was among the oldest and best known Mexican brewers. In Mexico the social responsibility of the brewing sector had been hotly contested. CCM launched a number of campaigns aimed at educating the public about the values and ethical norms that are most conducive to a responsible and rewarding lifestyle. All of these programs convened representatives from government, universities, sport celebrities, and the media.

Peru (Universidad del Pacífico)

The *Asociación Civil Labor* (Labor Civil Association, henceforth Labor) is a CSO founded in 1981 to protect the rights of the industrial workers of the city of Ilo. Its constituents were mainly mining workers, most of whom were employed by Peru's largest mining company, the Southern Peru Copper Corporation. Over time the CSO's ideals turned toward promoting an

environmentally sustainable way of doing business while reducing the mining industry's negative environmental impact. Labor has also fostered dialogues among companies, communities, civil society members, and public officials to generate consensus on how to meet the challenges faced by that industry.

The *Hogar de Cristo* (Home of Christ) was founded in 1995 as part of the Catholic Church Caritas's network to care for children, youth, and those with mental or physical handicaps. In 1998 it became an independent CSO and experienced explosive growth in terms of its geographic reach and number of beneficiaries. Hogar de Cristo has organized large numbers of volunteers and enjoys support from both private enterprise and government.

Cementos Lima (Lima Cement) was established in 1967 and is a leading cement producer with an annual revenue of $146 million. The company's social projects were long viewed by many as paternalistic, but by reframing them as social investment, the company is able to measure their impact on local communities. The projects focus on environment and community development, primarily among disadvantaged communities located south of Lima, and are channeled through a CSO known as Acotongo, to attract third-party resources.

The *Antamina Mining Company* is a joint venture of several international companies that produce copper and other minerals. From its start in 2001, the company embarked on a CSR strategy to win over local communities. Its stakeholders were mapped and an ongoing dialogue was launched to explore the communities' long-term needs. This led to the founding of the nonprofit Asociación Ancash (henceforth Ancash).

Spain (ESADE)

The *Grupo Balear de Ornitología y Defensa de la Naturaleza* (The Balear Group for Ornithology and Nature Defense, henceforth GOB Menorca) is a CSO that seeks to protect the rich environment of the island of Minorca, Spain. Its watchdog mission is to monitor the activities by government and companies that might infringe on environmental legislation, and to undertake research, education, and public campaigns to foster public awareness of environmental issues. The CSO has around 7,000 members, but a full-time staff of only 30. Throughout its 30 years of existence the fine quality of its work has been recognized by various national and international organizations.

Intermón Oxfam (IO) was founded in 1956 to fight poverty in developing countries. Since 1997 it has worked with the other 11 members of

Oxfam International, a global confederation of CSOs. As of 2004, IO administered more than 600 development projects in over 40 nations in Africa, Latin America, and Asia. IO provides emergency relief in the developing countries and carries out campaigns in Spain to generate awareness of the suffering of the world's destitute people. It also promotes fair trade between North and South.

The *Industria de Diseño Textil* (Textile Design Industry Group, henceforth Inditex) is a leading global company in the textile and fashion industries, spanning design, garment making, and distribution. It includes 8 international chains of department stores, which by 2003 controlled 1,922 individual stores in 48 countries. In 2003 Inditex revenues were euros 4,599 million. The company has given new impetus to its socially oriented practices. To deal with the challenges posed by the internationalization of the company's chain, it partnered with the Codespa Foundation in Morocco in an effort to improve the social environment of Inditex workers and their families. This initiative covered 5 factories, reaching 420 employees directly and another 3,720 individuals indirectly. The success of the enterprise has led the company to consider expanding it to other factories elsewhere.

MRW[2] operates in the highly competitive world courier market. The company has shown a strong and sustained commitment to society and sought to embed this core value in business strategy throughout its largely franchised network. The socially oriented programs of the company have been recognized with over 100 awards.

Venezuela (IESA)

Fe y Alegría (Faith and Happiness, henceforth FyA) is an international network of CSOs, founded in Venezuela in 1955. Ten years later FyA had expanded to 14 Latin American countries and Spain. In 1986, the International Federation of FyA was established to promote cooperation within the network. Despite its religious origins, FyA is almost entirely staffed by lay members. FyA programs deliver formal education at the preschool, primary, and secondary school levels, and provide professional training, adult education, learning at a distance, and teacher training. By 2004, it was estimated that 1,232,140 individuals had benefited from network programs.

The *Fundación Proyecto Paria* (Paria Project Foundation, henceforth FPP) is a CSO that promotes the comprehensive development of rural communities in the Paria peninsula of northeastern Venezuela. FPP was originally conceived as a promoter of Paria as a tourist destination, but it has since diversified to focus on health and education services, as well as

on offering micro-credit loans to low-income cocoa growers. Its aim is to strengthen local communities by promoting their active participation in all issues that affect the region's well-being.

The *Compañía Anónima Nacional de Teléfonos de Venezuela* (National Telephone Corporation of Venezuela, henceforth CANTV) is Venezuela's most important company in the service sector, with 9,800 employees and yearly revenues of $1,662 million. The company's CSR programs encompass a broad array of activities. Its best known initiative is the Social Fund (*Fondo social*), which has operated since 1977 and supports agencies that work with youth and children at risk. This fund is financed by 1 percent of the proceeds obtained from the sale of phone cards.

C. A. Ron Santa Teresa (Santa Teresa Rum Company, henceforth CARST) is among the oldest companies in Venezuela. By 2005, it was the world's fourth largest distiller of rum. CARST social initiatives include *Camino Real*, launched following the invasion of company land by 400 families. After the company conducted a process of dialogue with the community and the local government, the squatters were settled into what is now considered a model community. The company has undertaken to promote broad-based development in its surrounding area. Projects include Consetours, a foundation which seeks to promote tourism and tourist-related industry; and Alcatraz, a project aimed at creating educational and economic opportunities for delinquent youth.

Using the Book

In the chapters that follow, conceptual frameworks and smart business and management practices, as well as challenges, are illustrated with examples drawn from the study of the foregoing companies and CSOs. Both commonalities and differences in management practice are considered within the complex social context in which the organizations operate. The lessons learned from the experiences are examined with a view to strengthening business and CSO practice in promoting sustainable social initiatives elsewhere.

Although readers will, of course, digest this book according to their personal style, we offer the following suggestions for productive inquiry. Each chapter's conceptual framework is not only helpful as a guiding map for reading the chapter, but it can also serve the reader subsequently as a useful way to think about and analyze each of these key practice areas. The practical richness of the book is rooted in the abundant delineation of smart practices by the forty CSOs and businesses. Because these intelligent techniques are so diverse, the reader might find it useful to note down

practices that seem particularly relevant to his or her own interests. The resulting tailored inventory can serve as a useful reference document for future use. One should give special attention to practices that stand in contrast to one's current techniques or perceptions. Each difference represents a potential learning opportunity. It may be that a direct application is not appropriate because of the particularities of each organization, but the process of exploration may generate new insights about what might be done differently. Many of the practices or approaches encountered may be similar to those used by the reader's organization, thereby providing helpful affirmation of those actions. Each chapter ends with managerial lessons which can serve a useful summarizing function for the reader, although these lists are not meant to be exhaustive but rather stimuli for further contemplation. Accordingly, a good exercise for the reader is to attempt to distill additional lessons. We consider our readers to be intellectual partners and fully expect them to generate many more insights.

The authors very much hope that our work will be of significant help to social enterprise practitioners in both business firms and CSOs as well as to scholars, so that we may all—collectively and individually—advance the wellbeing of our communities.

Notes

1. In this book, the terms Civil Society Organization (CSO) and Nonprofit Organization (NPO) are used interchangeably, as synonyms.

2. The MRW acronym does not have any specific meaning. When the company was founded, in 1977, it was originally called Mensajeros Radio (Radio Messengers). When it became a major player in Spain's courier industry, and before going global, it was decided that the name would be shortened to its initials, with a "W" added to it. The rationale for that was to give to the new name a more international sound, in an industry dominated by global corporations named with short, catchy acronyms: UPS, DHL, FedEx.

2

Leadership in Social Enterprise

Social ventures emerge as a result of initiatives driven by one or several individuals. How is it that these ideas—and not others—take form as social ventures contributing to social and economic enhancements for the population? Which capabilities are required to serve an organization's economic and altruistic goals simultaneously and consistently? What skills, roles, and management styles do social ventures need to grow and consolidate? The answers to these questions reside in leadership.

In social ventures leadership can be viewed as the ability to drive transformations and accomplish outstanding results. Some of the propositions from "charismatic theory" best explain the role of leadership in the social ventures studied here.[1] This theory explains how leaders manage to trigger and sustain profound changes in their organizations, how they promote successful social reforms amidst adverse circumstances, and how they engage, motivate, and empower their followers. Similarly, this theory stresses leaders' ability to set up organizational frameworks and to instill values and commitments in their organizations that enable the growth and consolidation of the social ventures. A detailed review of 40 case studies on social ventures in Latin America and Spain supports the conceptual groundwork provided by the leadership literature. The approach used moves back and forth from deduction to induction, and from theory to practice. Case studies show and illustrate the type of leadership required to develop best practices in social endeavors.

Alfred Chandler's work helps us to distinguish the discrete stages of social venture leadership.[2] He argues that shifts of strategy in organizations bring many changes.[3] Our research suggests that social ventures often unfold in four stages, triggered by an initiative driven by an individual who identifies a social, economic, or environmental problem and develops a project to contribute to its solution. Nonetheless, in order for the venture to perform efficiently and effectively, it should become embedded in the organization's operations. This process is known as institutionalization, and it usually means that organizational structures, policies, procedures, and systems are developed by leaders to ensure that social ventures are well managed, sustainable, and strategically aligned to the mission of the organization.

Subsequently, to enable social action growth, outstanding leaders assign ventures to independent units that operate in a decentralized fashion and call for shared leadership to ensure efficiency and effectiveness. Sometimes decentralized management may cause social ventures to act as conglomerates of separate units that operate independently, have their own organizational structures, and yet share a common strategy. Leadership, then, tends to focus on developing coordinating mechanisms that allow for a balance among decentralized activities and shared strategies. These four stages lead to the evolution of social ventures, and these transformations account for challenges faced by their leaders. We introduce this stage-based model neither as a rigid nor a universal process: not all social ventures undergo all stages or follow a specific sequence. The model does, however, capture the evolutionary process experienced by many of the organizations studied. The spirit of this conceptualization is not prescriptive (*"this is how it should be done"*), but descriptive (*"a significant number of ventures seem to undergo these stages"*).

As social ventures unfold, several roles (tasks) may be performed by leaders to secure sound results. At the same time, at every step, desirable—or necessary—skills may be identified as enabling leaders to handle these roles effectively. These skills are the personal and professional dexterities individuals or work teams possess, which should turn into whatever organizational capabilities are needed in accordance with the ventures' evolutionary levels. Mutually complementary, these skills do not pertain exclusively to any one stage, although it is possible to determine when each one of them becomes more relevant. Figure 2.1 describes various leadership styles—the outstanding traits of a particular way of acting or working, as well as the skills and roles that prevail throughout the development of the social enterprise.

Every leader develops his/her own style to carry out the roles for each stage. There are no specific or mandatory formulas. Yet specific leadership styles do seem to respond more effectively than others to organizations' management needs at each stage. Hence the most suitable leadership will depend on the organizational transformation challenges faced at each stage. For instance, social ventures' start-up processes are greatly eased by charismatic leaders who exert personal influence. Later, during their institutionalization stage, social ventures benefit from managerial leadership; then, in their decentralization process, they need a more interactive leadership style, and a more political one when they reach the social conglomerate stage. Nevertheless, regardless of their management style, organizations need to ensure sound performance in social ventures.

Figure 2.1
Leadership in Social Enterprise: Roles, Skills & Styles

Stages	Start Up	Institutionalization		Decentralization	Social Conglomerate
		Organization and Structure	*Strategic fit*		
Roles	Takes action Analyzes environment Leverages hierarchical position or contact network	Develops structure, policies and systems Builds a work team committed to social venture Ensures economic sustainability	**Companies:** Alignment with business strategy **CSOs:** Works out differences between stakeholders and organizational mission	Broadens social actions Decentralizes operations to autonomous units Empowers other leaders throughout the organization	Reconciles interests and coordinates several ventures within a single structure Builds strategic alliances Promotes the visibility of the social enterprise
Skills	Entrepreneurial skill Diagnostic skill	Harmonizing skill Motivating skill Social vision and commitment		Delegating skill	Coordinating skill Political and negotiating skills
Styles	Charismatic	Directive		Participative	Political

Leadership is a complex and crucial variable in social venture development. To gain a better understanding of this variable, we identify the most relevant leadership skills and roles used to drive social ventures. In addition, we deal with some of the hurdles leaders meet while developing their initiatives, and discuss how some social entrepreneurs have overcome their challenges. Since our study sample included both private companies and CSOs, we also pinpoint some key features in the role of social entrepreneurs depending on their original sector.

Venture Start-Up

Most social ventures are initiated by individuals with vast experience in the business or social arena. Although venture origins are usually attributed exclusively to a single individual, initiative development requires a social process in which the leader's interactions with other social actors and the local environment play a major role. The position held by an individual in society may facilitate the venture. Social networks may provide access to opportunities otherwise unavailable. A charismatic leadership style contributes greatly to raising the necessary resources to launch social ventures.

Owing to their creativity, inspiration, and persuasion, charismatic leaders act as magnets, attracting others and accounting for success in this stage.

The case of Compañía Anónima Ron Santa Teresa (CARST) in Venezuela shows how leadership displays personal traits and affects social processes, which may be triggered by external events. An illegal settlement of squatters on a parcel of land, followed by an attack on a company plant, challenged the leadership of the company's executive president, Alberto Vollmer—a man of philanthropic disposition and prior community work. His social values drove him to face and resolve the situation by developing initiatives that focused on community welfare. Without his determined and personal involvement, the organization would not have pursued social action. His ability to take risks and to find unorthodox solutions may be attributed to Vollmer's leadership style. At the same time, his initiatives would not have succeeded without the support and involvement of the community, local government, and the company's personnel. Entrepreneurship and the ability to understand social conditions and their impact on organizations stand out as critical leadership skills needed to achieve success in the initial phase of social ventures.

Entrepreneurial Skill

Entrepreneurial skill is the ability to identify and exploit opportunities to initiate ventures, regardless of the resources available at the time. The founders of social ventures carry out their initiatives by using their hierarchical position, networks, economic resources, and other assets. Occasionally, entrepreneurial skills are actively displayed when altruistic or utilitarian motivations cause leaders to seek opportunities to develop a social project. Sometimes, instead, this leadership capability is enhanced by a defensive attitude from a leader who needs to respond to external changes or threats.

When private companies undertake social ventures, it is usually through the initiative of their owners or board members. Their position permits them to access the resources required to turn their ideas into actual projects by means of budgetary and personnel allocations. For instance, Francisco Frías, the president of MRW, a Spanish courier company, developed a program to offer free shipping services to the Spanish "blue helmets"—members of the United Nations' peacekeeping forces stationed in Bosnia—because he recalled his excitement whenever he received a package from home during his military service. This social initiative was formally included in the company's service offerings. Later,

upon successfully sponsoring a social function, Frías decided to focus his communication and marketing strategy on promoting social action by assigning one percent of the company's revenues to social purposes. Frías' position as MRW president enabled him to streamline the company's efforts to develop social initiatives. Although members of mid-management or low-rank personnel may offer initiatives, these individuals will have to resort to their entrepreneurial skills to secure the approval of senior management (as well as that of board members or stockholders) in order to carry out their ventures.

At many sample CSOs, founders had to begin by building an organization that would actually undertake the social venture—which called for a greater dose of entrepreneurship than that needed by ventures that grew out of already established organizational structures (as is usually the case in private companies). Access to resources outside leaders' control, such as funding and human resources, demands a significant capability to take action and slowly piece ventures together. In these cases, rank and the ability to persuade others to join in and to support the cause become crucial factors. The case of ACOSAMA in El Salvador describes the entrepreneurial drive of a group of people who came together to ensure potable water in their community. To develop this project, it was necessary to get funding from several institutions and to engage various local actors. While putting the project together, community members faced and overcame numerous challenges that arose not only because of their lack of economic resources, but also because of their need to act as an institution. Fund raising required coordination with other communities and submitting proposals to potential donors. Personal issues also got in the way (including a case of embezzlement), as did technical difficulties that further complicated the construction of the water well. In light of these problems, many families forsook the initiative. However, the entrepreneurial skill of the project leaders prevailed and resulted in an intervention model featuring contributions from nongovernmental and international cooperation organizations, two city administrations, the federal government, and the community itself. The lack of economic resources should not be viewed as a barrier to the development of social ventures, although it does call for greater efforts from leaders. Both perseverance and flexibility are essential elements of entrepreneurial skill.

To get initiatives to prosper, it is necessary—and sometimes imperative—to carry out diagnostic studies on the issues to be tackled. If entrepreneurial skills are not accompanied by analysis of the overall

environment, understanding of the situation, and adequate social rela-
tions, going into action may rather delay or even hinder the launching of
the social venture.

Diagnostic Ability

Diagnostic ability is the skill required to gain an understanding of all the
causes and consequences—short-, medium-, and long-term—associated
with the social problems that prevail in any given community. After ana-
lyzing their environmental conditions, leaders formulate a plan to respond
to an issue, which turns out to be a determining factor for venture foun-
dation. From the correct diagnosis follows the design of a feasible and
effective solution through a social change model. Social diagnosis may
become a means to engage others and to build consensus. On the basis of
this skill, leaders develop a theory of change that helps them to change the
status quo. A theory of change is a convincing statement of how program
inputs will produce a sequence of intermediate and ultimate outcomes,
clearly defined, with causes and effects distinguished, coupled with some
indication of the basis for expecting the cascade of results.[4] This theory is
put to the test and implemented through a social venture.

Sample case studies prove that at the time of social venture foundation
CSO leaders use diagnostic skills more frequently than businessmen. This
behavior could be attributed to CSO principals' technical expertise, expe-
rience in social issues, or commitment to causes, as opposed to business
leaders' type of expertise and experiences. For instance, Rodrigo Gámez,
leader, founder, and general director of Costa Rica's INBio, had a Ph.D. in
virology, had taught at the Universidad de Costa Rica and headed its Mol-
ecular and Cellular Biology Center, and later had managed the Biodiver-
sity Agency of the Environment Ministry. Gámez's biodiversity knowledge
and environmental experience enabled him to envision how his country
could preserve and exploit its biodiversity. His understanding of local con-
ditions paved the way for an overall diagnosis of Costa Rica's environmen-
tal needs. Leaders who lack the knowledge or expertise required to
diagnose the situation personally should resort to field experts. In any
case, leaders must be fully aware of the need to understand their environ-
ment before embarking on a social venture.

Many founding leaders of social ventures in business companies and
CSOs rely on a vast accumulation of knowledge in their areas of expertise
and have ready access to valuable information to understand local social
needs. In addition, CSOs leaders usually elaborate more sophisticated

social diagnoses than businessmen do, because they need to secure financial or political support to engineer their social ventures. This need triggers the development of a more detailed and thorough analysis of potential consequences that may result from neglecting a specific social problem and the remedies proposed by ventures.

Understanding the local context through a diagnosis of the needs that should be addressed is the key to determine the focus, features, and resource requirements of the venture. In order to operate successfully in some communities, it may be better to turn to local personnel to manage the initiative. A local individual is generally more familiar with domestic regulations and customs, and may even smooth the development of collaboration ties with other local actors, significantly enhancing the chances for success in the initial stage. Mexico's FCO is an organization devoted to promoting the involvement of all sectors to improve the welfare and living conditions of the marginal populations in Oaxaca, in the country's southern region. FCO's director, Jaime Bolaños-Cacho, a lawyer who specialized in corporate governance, had both the political and professional background required to understand local dynamics and social challenges. Although he was not an expert on social issues, he knew the local setting and kept an open mind to learn about CSOs. In contrast, his predecessor, who came from Mexico City, found it very hard to cope with the demands of his position due to his poor knowledge of Oaxaca's situation and his lack of local acquaintances. Contacts and knowledge may significantly enhance an organization's credibility among its local stakeholders and facilitate the development of links to other social actors.

In many cases, social program success may be attributed to the simultaneous deployment of entrepreneurial and diagnostic skills—both of them critical. Alpina Food Products (Alpina Productos Alimenticios) was founded in Colombia in 1945 by Walter Göggel, who had arrived earlier in Ecuador as a member of a group that was to provide technical assistance to regional farmers. His desire to contribute to rural development led to an in-depth research of the needs of small agricultural and cattle-breeding communities. In time, he and his partner discovered that they could set up a business while promoting production development. Alpina became one of the leading private dairy companies in the Andes region. This case also shows how a simultaneous concern for creating economic and social value may yield, as well, specific advantages for business development.

A strong drive to improve local living conditions, coupled with a thorough diagnosis of the issue at hand, eases the launching of social ventures.

A carefully designed work plan that takes environmental features into account is not only desirable for the purpose of starting social ventures, but also for institutionalizing them within organizations.

Social Venture Institutionalization

Social venture institutionalization is the process that leaders follow to develop the necessary structures, policies, procedures, and systems to incorporate social ventures formally into the strategy and regular operations of their organizations. Institutionalization implies that the venture stops depending on the leader and becomes efficient and effective within the organization by developing the necessary administrative structure without, however, losing sight of its social purpose. In addition, leaders usually ensure the necessary economic resources for ventures to reach financial sustainability and internal acceptance by building a team that can manage initiatives. Increasing the number of collaborators may enhance results if it is added to an effort to optimize the use of allocated resources. Also, to succeed in institutionalization, it is crucial for social venture objectives to be aligned with private companies' business strategies and with CSOs stakeholders' interests. Social ventures can furnish several kinds of benefits, such as image enhancement or economic gains for the institutions that implement them. These elements are the essence of institutionalization processes.

A managerial leader uses systems and structures to provide a direction for his/her team and, on a personal level, guides and controls all decision-making processes throughout the organization. This type of management style may smooth the transition of social ventures into institutionalization. Leaders should thus demonstrate their ability to match social ventures to their constituencies' agendas, showing that they contribute to efficient and effective administrative processes.

The personnel in charge of executing a project tends to commit to its social objectives, as long as leaders are good motivators. Organizational culture and values provide the framework to build a team that is committed to the success of the venture. Leaders must guide and support their organizations. Ongoing improvement and organizational learning should become institutional goals—as well as tools to achieve project objectives. Social venture institutionalization is the key to ensure initiative continuity, even after the leaders' withdrawal.

Harmonizing Ability

The skill to harmonize allows leaders to reconcile the agendas of social ventures with those of the stakeholder constituencies. Such an alignment helps social ventures to obtain the necessary structures, processes, and work teams and to be viewed as consistent with organizational missions and strategies. Leaders who have this ability find it easy to identify social ventures' desirable effects on companies' economic results or a particular venture's alignment to a CSO's core focus. In private companies, such leaders manage to link social projects' objectives to business strategies in such a way that social projects yield benefits that contribute to companies' competitiveness. In CSOs, they manage to relate social ventures to organizational missions, stakeholders' demands, and environmental changes. This ability contributes to strengthening the credibility of social ventures among their constituencies and improves their access to economic resources.

It is very important to integrate social programs and corporate strategies. If social programs become a source of business competitive advantage, they are likely to garner greater support from management (board, stockholders, and managers) and from company collaborators. This support also fuels ventures' institutionalization processes. If corporate philanthropy is closely related to a company's strategy and core business, the creation of simultaneous social and economic value will be more effective, as argued in Chapter 10.[5] It was with the launching of Tapsín, a headache medication, that Chile's Maver Laboratories decided to collaborate with social welfare projects. The company created the Tapsín Foundation to "promote human, family, group and community development through an educational and cultural program." This venture came out of the company leader's managerial perspective and was intended to strengthen its image. The strategy focused on positioning the brand not only as trademark, but also as a benefit provider for the community. This social venture also yielded other economic gains for the company, since donations to Tapsín Foundation were tax-deductible. The venture's social and economic value creation drove its institutionalization and ensured its incorporation into the company's business operations.

Similarly, the top management at Guatemala's leading sugar producer and exporter, Pantaleón, provided labor improvements for its workers through corporate housing, health, and educational programs, thus enhancing company productivity and competitiveness. Julio Herrera, Pantaleón's president, championed social responsibility practices in the company. He

believed that long-term competitive performance depended on the company's good relationships with its workforce and its nearby communities. This leader's notion that business competitiveness would increase by means of parallel investments in development programs played a key role in the formulation of policies for the company's involvement in social ventures. It is most important that leaders analyze the degree of alignment of the social enterprise with their core businesses before creating the organizational structures that will support social ventures. A strong alignment between both dimensions will prevent disappointing results and ensure continuity.

When company leaders neglect to harmonize social programs and business strategies, the philanthropic efforts may proliferate incoherently. The experience of CANTV, Venezuela's leading telephone service company, shows some of the challenges and necessary realignments in response to these predicaments. From 1994 through 2004, the corporation's social strategy focused mainly on philanthropic and advertising-oriented programs. In August 2004, CANTV management realized that business profitability was dimming as the telecom market weakened owing to excessive supply. Social ventures had to be aligned to corporate strategy if they were to be continued. To rise to this challenge, CANTV developed the Super@ulas (Super-classroom) program to create mobile, high-tech classrooms manned by specialized personnel to respond to the educational needs of public school children in low-income regions. By bringing technology to poor communities, CANTV helped develop its target market while strengthening Venezuela's educational system. As this case demonstrates, if aligned to business strategy, social ventures may be viewed as long-term investments that not only contribute to improving community welfare but also enhance company performance.

When social ventures and business strategy are not fully compatible, company support for venture initiatives may be impaired, since they are construed as unnecessary expenses that provide no economic value for the business. Even if there is a strong leadership that intends to promote social ventures inside the company, a business needs to ensure that social programs will supply short-, medium-, or long-term benefits for the organization to support these initiatives. Therefore it is the correct social program alignment to business strategy that drives company commitment and prevents social ventures from being perceived as resource drains.

A noteworthy example is provided by the CSU-CCA Group, a supermarket chain in Central America (based in Costa Rica). After its Corporate Relations Department was created to run social programs, there seemed to be some friction between company managers and leaders driving social

ventures. Some managers viewed these programs as a business cost. Clashes resulted from the fact that the company's social strategy was not aligned to its core business. In order to smooth the tension and to embed its social strategy in its business operations, the company built its Corporate Social Responsibility Committee, chaired by CSU-CCA executive presidents and a member of the Group's board. Rodolfo Arguedas, CSU executive president and committee member, explained:

> I have always believed that CSR pays off. Still, I needed to formulate a plan that would merge the whole company in a single, consistent, and ongoing program. The Social Responsibility Committee was created to draw a strategy that matched the Group's operations. You can't take these matters hastily. You need to train, to build awareness, and to provide the necessary opportunities to engage everyone. If you start setting guidelines for your future activities before developing such a process, there will be clashes with those who manage day-to-day business. Then you end up spending money and not knowing how it will benefit you in the future.

In addition to stressing the significance of social venture alignment to business strategy, Arguedas' comment points to the awareness-building process required to ensure personnel involvement in social initiatives.

For CSOs, strategic alignment means reconciling stakeholders' demands with nonprofits' social missions, while the latter, in turn, respond to environmental changes. Hence CSOs leaders' harmonizing ability is used to align organizational missions to constituency demands and environmental changes.

As social and economic conditions shift, CSOs' missions may evolve to respond to changing needs and stakeholders' demands. The exercise of leadership is intended to guide organizations through this adjustment process over time. For instance, GOB Menorca, a CSO that promotes sustainable development in the island of Minorca, Spain, started out in 1975 as a research organization. It began operations in 1985, with a traditional strategy of advocacy and "naming and shaming," which aimed at denouncing what it perceived as threats to the island's environment. In the 1990s, the organization focus evolved towards educating the public and creating environmental awareness. Finally, by 2000, it developed a more collaborative approach, seeking links with other sectors to formulate and foster socioeconomic alternatives to ensure island preservation. The development of cross-sector collaboration with governmental and private institutions

for social initiatives calls for flexible and strategic leadership that also takes social and political conditions into account.

Leaders should ensure the necessary resources to develop social ventures and to institutionalize their initiatives in their respective organizations. Those who are successful are usually endowed with a special ability to raise economic resources or to lobby, and to build effective ties to sources that provide funding for social program consolidation in the case of CSOs, or stockholders and board members in the case of private companies. This role is especially imperative for CSO leaders, since social ventures in private companies are generally funded by proprietary resources. In fact, fundraising takes up a large portion of CSO leaders' time—occasionally, in detriment of administrative tasks. However, in both cases, it is necessary for leaders to secure a budget or a cash flow in order to institutionalize social ventures. Organizations should not depend solely on leaders' influences or networks to access economic resources.

Sometimes fundraising may force CSOs to focus social ventures according to project-funding possibilities and cause them to drift away from their original missions. Nonetheless, social ventures studied showed their leaders' ability to match their missions to donors' demands. The founding members of Labor Civil Association (Asociación Civil Labor), a CSO devoted to community development and environmental protection in Peru, have managed to preserve the organization's values throughout its existence of more than two decades. Feeling they were overly dependent on external financial sources that made them subject to fluctuations in planning and prioritizing, the organization's leaders decided to broaden its strategic focus. The Association shifted from labor movement promotion to addressing environmental issues and expanded its operations to other regions. Through diversification, the organization succeeded in reducing its dependence, adjusting to donor demands, and still sticking to its initial values (a solidarity commitment to Peruvian society). Many CSOs in Latin America are financially dependent on organizations that force them to draw away from their original missions. To overcome this challenge, these CSOs need strongly committed leaders who are able to accommodate the requirements of the cooperating agencies without compromising their values. They must find a balance that enables them to meet their donors' demands and to preserve their credibility among their stakeholders.

Team Motivating Ability
For social ventures to reach institutionalization, they must demonstrate efficiency and effectiveness. To this end, it is highly valuable to build teams

that are fully committed to social causes. Leaders' motivating skill emerges as one of the most relevant components required to reach this goal, by building close relationships with program supporters and by fostering shared commitment within organizations. Thus leaders must ensure administratively efficient human resources management. They may act as mentors to members of the teams that will manage social venture growth. The foremost task involves instilling a concern for social welfare and a commitment to the cause among employees. Some businessmen call it "indoctrination."

In order to get an organization's personnel to identify with its social policies, internal company actions should mirror external statements. For the Spanish courier service company MRW, team management was a key aspect in both its corporate and social strategy. The company had a wide range of policies intended to promote personnel involvement, motivation, and innovation by responding to their social needs. This strategy permeated its human resources management at all levels: in recruiting and hiring, in training and development, in social benefits awarded to employees, and in its policy to ensure family and work life compatibility.

For MRW's president and general director, Francisco Frías, internal communications are essential to build a corporate culture of social responsibility and to convey company values, as well as to ensure proper business management and operations. "At MRW," he explained, "we truly value inner, horizontal, formal and informal communications." At his initiative, the Ethical and Arbitration Committee was created to ensure ongoing communications across the organization and to foster overall involvement in major decision-making processes. According to Frías, "this has been the key to professional motivation and to accomplishing company goals." The company established two departments to promote social responsibility actions: a Social Action Department, focusing on external social policies, and a Corporate Relations Department, responsible for human resources policies and compliance with international labor certification standards. A team of motivated collaborators and an organizational structure to support efficient human resources management are crucial to institutionalization processes. Both promote the incorporation of leaders' values into institutions' cultures.

Case studies show that leaders' humble demeanor and strong social commitment also inspire other organization members to support social endeavors. In general, leaders with these traits are respected and admired by their collaborators, and in turn this respect and admiration promote the institutionalization of initiatives. Since Profamilia's inception in

Colombia, Fernando Tamayo displayed an interested and respectful attitude towards the organization's management and employees, which was widely viewed as a motivating factor. Although he was a member of the high society and was in constant and close contact with the nation's powerful circles, he chose to dedicate his life to serving the underprivileged through family planning programs. He was able to promote this initiative when he built a professionally competent team that was also deeply committed to the cause. Tamayo's management style features other leadership characteristics: trust in his staff, low turnover in his management team, and focus on results.

The leaders who are strong motivators also convey their ideas and goals through their example. They do not only expect commitment and effectiveness; they act as role models. At the Chilean organization Codesser, Miguel Kast motivated collaborators through his example. In the 1970s, after graduating from the Universidad Católica de Chile and the University of Chicago, Kast returned to his country to serve as a public official. Acting from a deeply rooted social purpose, he drew the first extreme poverty map in Chile. Many of the young professionals who joined Codesser were motivated by his example of public commitment. Although his life was short—in 1983, he succumbed to cancer at the age of 34—he made a profound impression on those who met him. He said, "I know that because I have been given so much, I have to give a lot to those who are in need." According to Rodrigo Martino, Codesser's Executive Secretary, "If it hadn't been for Miguel Kast, we wouldn't have gone into education. He truly believed in the value of education for national development."

Social Vision and Commitment

Social venture leaders' dedication to specific causes generally derives from their social vision and commitment, which usually express personal values and sensitivity towards the predicaments of others. Social vision may be defined as the capability to understand local social issues and to empathize with the reality faced by each group in society. This vision empowers leaders to move both vertically (up and down on the social ladder) and horizontally (across the private, public, and civil sectors), overcoming the class gaps and ideological biases that may hinder successful social venture development. This vision drives leaders to commit to social value creation through corporate activities or CSOs ventures, and it enhances their credibility among stakeholders.

The origin of leaders' social vision and commitment becomes apparent when they design initiatives to address social issues. Eugenio Heiremans's

concern for work safety and his commitment to this cause over the 45 years he spent at the helm of Chile's ACHS dated back to his early youth, when he noticed that the poorly educated workers at his family's business could not afford to better their working conditions. In addition, his religious beliefs reinforced his interest in human welfare. Joaquín Risopatrón, membership manager, observed:

> Don Eugenio is an extraordinarily humane individual. . . . My secretary underwent surgery a little while back. He called her at the clinic and at home to check on her condition, which I only did later. That's not very common, especially since there are 35 managers here, so we have a lot of secretaries around. . . . These things get around; then, people understand that respect and concern for individuals are institutional values here, because they have experienced them. As a leader, he cares about his people and he shows it.

Social commitment is shown not only through leaders' involvement in social ventures, but also through their concern for their staff and their respect for people, regardless of their social status.

Social vision enables leaders to move across sectors and social strata, thus contributing to a suitable strategy to respond to stakeholders' needs and demands. Additionally, by interacting with diverse social groups, leaders may pursue collaboration paths that help social ventures grow. In ACHS, Heiremans kept in touch with top government officials, although he was not a follower of the party in office, as well as with businessmen and local union leaders. As viewed by ACHS personnel, this counted for one of the institution's strengths. An ACHS manager explained: "Despite the fact that he doesn't have a great fortune, or impressive academic or graduate degrees, Heiremans can mingle with important businessmen, who not only respect him but ask his opinion, and he is heard by people from all political sides."

Through their interactions with various social groups, leaders may provide a motivating example for their employees while they strengthen the credibility of their social commitment. Case studies also suggest that the ability to harmonize and motivate, added to social vision and commitment, are complementary attributes of social venture leaders. The combination of these three skills enables leaders to gain a more thorough understanding of social issues. Also, through these attributes, leaders manage to align ventures to business strategies or CSOs' missions, and to build the necessary organizational structures. Seemingly innate, these skills may

be developed by hard work and training. Some leaders who lack one of these capabilities choose to hire a skilled expert. Social venture institutionalization takes time. Although benchmarking possible actions may be useful for leaders, there should always be some measure of creativity in proposals and activities.

Ventures' success largely depends on leaders' harmonizing ability, since inconsistent social endeavors may easily become occasional good deeds. Yet if leaders only have this one ability but lack social commitment, initiatives may want in credibility or simply bear a limited social impact. As Carlos Manuel Uribe, CSU-CCA's executive president, put it, when he referred to the corporate social responsibility committee he led, "this is not about money; this is about deeply held convictions."

Venture Decentralization

Broadening social activities may raise difficulties for organizational operations. To resolve growth complications, it might be convenient to decentralize operations and to grant autonomy to social ventures. An effective decentralization appears to benefit from a more interactive, less managerial leadership approach. Social ventures carry on, managed by independent units. At this stage, functional delegation becomes common. Each unit starts to develop its own ventures, which, though independently managed, converge into a single social goal. Autonomy entails building teams that can establish social initiatives and manage independent units efficiently and effectively.

Leadership then encompasses two dimensions: centrally, it becomes more strategic and focuses on organizational missions; divisionally, it acquires a more executive role associated with specific venture implementation and management. Founding leaders—or those who led ventures through their institutionalization processes—often stay at the central level, where decisions are made to open or shut down units or to allocate central funding to specific activities. Decentralization enables organizations to carry out several social ventures simultaneously.

Private companies and CSOs usually approach decentralization in different ways. Given the social missions of CSOs, their venture growth generally takes place within organizations. In contrast, private companies sometimes prefer to create a corporate foundation or to build cross-sector alliances when they broaden the scope of their social action. Thus companies are able to decentralize their social ventures through parallel structures inside their organizations, corporate foundations, cross-sector partnerships, or some combination of these. Regardless of the format used to

decentralize social ventures, sound performance requires the promotion of new leaders for independent units, in private companies and CSOs alike.

Evolving from a managerial to a more interactive leadership style is not easy. To scale up their social ventures, some organizations undergo a succession process for their founding leader, in which leadership is shared or rolled out at various organizational levels. In those cases, new individual leaders are assigned to independent units to lead social ventures, and are empowered to do so. Training and collective decision-making processes contribute to helping new leaders develop the required skills.

In some social ventures, leaders are unable to switch to a more institutionalized and less centralized administration format. Failing to make the transition from managerial leadership to a more interactive approach may actually curtail social venture growth and operating efficiency. Centralized decisions are more frequent in CSOs than in private companies because of the administrative structure that tends to prevail in this type of organizations.

Top leaders should know that the time will come for them to pass the torch on to others so that social ventures may bloom. To foster the emergence of new leaders who will be in charge of managing independent units, employees should be empowered by taking on some of the responsibilities previously held by central leaders. The subsequent emergence of lateral leaderships or teams will push leaders towards decentralization.

The Ability to Delegate

This is the ability top leaders display of assigning functions to others, becoming their mentors, and empowering them to manage independent unit operations. The divisional leadership team should be carefully selected and be suited to succeed central leaders. Thus a laid-out decentralization process may contribute to smoothing the transition when central leaders retire or withdraw.

Case studies show that an effective way to empower social venture managers is to engage them in strategic decision-making. This participation also helps to keep independent unit operations aligned to overall organizational strategies, streamlining efforts to reach a common goal. The case of Colsubsidio, a Colombian organization that has provided social services since 1964, shows interactive leadership in an organization that used independent units to develop several social ventures focusing on ensuring equal access to healthcare services for Colombian workers. Carlos Arango, Colsubsidio's principal, replaced Roberto Arias, a managerial leader who had consolidated the organization over a 27-year period. Arango was

determined to promote interactive management in order to strengthen growth. To this end, he asked representatives from all areas to join in the formulation of Colsubsidio's strategic plan. Thus, without making any dramatic changes in the management team, Arango managed to develop team members' potential. These managers, who, before his arrival, used to perform their duties by following orders, built a highly autonomous and committed team to make consensual decisions and to discuss all major organizational issues. To assign responsibilities, Arango selected individual teams and made them accountable for specific goals. He would provide support but let them work on their own. Even board members recognized his ability to delegate, which paved the way to a more empowered and committed workforce.

Independent unit managers must also deploy broad administrative skills to run their divisions efficiently and effectively. Central leaders may foster these skills by mentoring these individuals or by implementing training processes. To prepare for the departure of Rodrigo Gámez, INBio's founding leader, chairman, and executive director, this Costa Rican organization distributed his responsibilities to a larger number of people, thus reducing the institution's dependence on its initial leader. Five strategic action units were created, one for each area handling social ventures. In each unit, a manager was appointed to ensure administrative efficiency of his area, including the development of unit personnel. So as to empower these managers, Gámez shared his experiences and insights drawn from the 14 years he had served as INBio's director. Leadership team members were recruited from within, as a result of the work the organization had undertaken for years to build its personnel's capabilities.

In accordance with Gámez's administrative philosophy, INBio used a benchmarking framework developed by the Global Environmental Facility of the United Nations' Environmental Program, GEF-UNEP, which defined capacity development as the ability of individuals, institutions, and society to identify and solve problems. Formal training opportunities had been rather limited at INBio, but Gámez believed that its success was partly attributable to a handful of highly committed people who had trained themselves for independent management through informal and self-teaching methods, in line with his mentoring. In social ventures, the ability to delegate also implies transmitting social values to independent unit managers. As most case studies show, central leaders ensure that their colleagues are fully committed to organizational social objectives. A solid, well-known organizational culture is a valuable asset. Bonding through shared values smoothes communications and allows for broad engagement in decision-

making processes. Social ventures must go beyond individual efforts; they must become team efforts.

When administrative responsibilities are delegated, there should be continued commitment to social projects. Colombia's dairy product company, Alpina S.A., used a decentralized approach to implement social ventures for its employees, suppliers, community, and environment. Julián Jaramillo, company president, viewed social activity development as part of the company's culture. Accordingly, although there was no formal social responsibility management system in place, functional areas (made up of self-managed teams) developed social ventures. Key to these initiatives were the social values that Alpina's founding partners, Walter Göggle and Max Bänziger, had instilled into the company since its inception. While they ran Alpina, Göggle and Bänziger launched several social ventures, many of them intended to improve workers' living conditions, thereby setting the example and consolidating the values that would prevail in the organization. Although they had retired from company management 25 years earlier, they stayed on the board, promoting their values among those who had taken over business operations. The social projects initiated by both founders would not have multiplied into the vast initiative portfolio the company had by 2004 if they had merely delegated administrative functions and not their values. Value continuity may be ensured in several ways, including a careful selection of managers, but it may also result from ongoing involvement—even in limited roles—by founding leaders. In sum, when organizations broaden their social service offerings, they need to delegate authority and decentralize operations, keeping a reduced group of people at the organization's center. Successful delegation and decentralization enable social ventures to grow and expand their services independently while preserving their original values.

Conglomerate Leadership

Intense operational decentralization, caused by the need to reorganize and expand social venture diversity in regions, products, or services, sometimes drives social organizations to concentrate administrative functions. A social venture portfolio demands substantial coordination to exploit synergy opportunities and to prevent tensions from building among independent units. A common strategy is desirable as well. Certain administrative functions can be managed under shared guidelines and overseen by clear and firm leadership.

A social conglomerate features a set of organizations or units that independently develop social ventures and yet pursue a shared strategy,

although each has its own organizational structure. The success and social performance of conglomerates depend on their centralizing certain critical aspects that assure organizational efficiency and effectiveness. Conglomerates have a diverse and complex organizational structure that requires significant control and coordination efforts for effective operation. Hence a delicate balance between independence and control must be achieved. Few examples in our case studies have reached this organizational development stage—only some CSOs' social ventures.

These cases show that conglomerate leadership is political, stemming from a centralized unit that sets forth common strategic guidelines for ventures and coordinates critical functions to ensure overall operating efficiency. These functions may include fundraising, creating a common organizational culture, or implementing knowledge management systems, since all of them entail high levels of coordination across units. In addition to managing task reassignments, leaders use their political and negotiation capabilities to assemble conglomerate activities under a single common strategy and to mitigate tensions between ventures. An additional task for leaders of conglomerates is to consolidate their external visibility—in industries, sectors, or countries. At this stage organizations are no longer focused on seeking internal efficiency; instead, they develop an external focus. Leaders' coordinating and political capacities become pivotal for successful performance in these tasks.

The Ability to Coordinate

Conglomerates' complex structure, which encompasses organizations, functional units, and a social venture portfolio, benefits when leaders centralize key activities to exploit economies of scale and synergies. Their job is to streamline conglomerates' efforts under a common mission while preventing any loss of operative independence. This type of coordination also enters into play in the development of centralized activities leading to overall conglomerate success. Strategic guidelines are formulated through a process that involves several organizational layers and provides a common framework for the entire institution.

FyA, a popular education and social promotion movement operating in 14 Latin American nations and Spain, offers an example of leaders' coordinating abilities in a conglomerate. This movement included a number of national offices that were functionally autonomous but shared FyA values. FyA's International Federation (FIFyA) coordinated the whole movement, encouraging collective construction, promoting collaborative projects among member nations, fostering communications among national

offices, and setting the basis for interactions with international agencies. FIFyA components were in charge of coordinating operations. There was a clearly defined mission for the movement itself, another one for the Federation, and each national office had its own mission. The Federation's coordinating capacity became manifest when, owing to a commitment shift experienced by some members, it formulated a plan to develop and strengthen its institutions in order to provide cohesion to the movement and to redefine its strategic and operating objectives. Representatives from all national offices were engaged in the design of the plan, while the Federation also coordinated fundraising efforts to undertake this initiative. By coordinating planning and fundraising activities, social ventures may effectively enhance their chances to access financing and exploit potential synergies among various activities.

For conglomerates to operate efficiently, our case studies indicate that it is necessary to coordinate communication among members so that information flows freely up, down, and sideways between countries or units. Going back to the FyA's example, this organization had a swift and effective communication system, enabled by mechanisms such as the Internet, international symposiums, and staff meetings, to ensure that decisions made at the top were duly conveyed across the organization and vice versa. The task of coordinating communications among conglomerate members may be facilitated by systematic procedures for the exchange of information, which promote synergies among activities.

At this stage, the centralized management is engaged in building an information platform that supports decision-making and institutional learning. FyA was defining criteria and collecting statistics to set up a consolidated information system for network members to consult. Also along these lines, given its lack of measurements to assess program quality and social impact, the Federation was developing a dedicated organizational evaluation model. Knowledge management is indeed one of the least developed areas in social ventures, although many organizations have already planned for future developments in this area. Organizational coordination prepares the ground for synergy and economy of scale exploitation across social conglomerates' activities.

Political and Negotiating Abilities

In a social conglomerate, organizational leaders often deploy their ample political and negotiating skills to reconcile conflicting goals, to build effective relationships with any number of stakeholder groups, and to consolidate social venture exposure. When these activities are successful,

organizations may achieve synergies across a range of activities and alleviate inner tensions resulting from conflicts of interest among units. In addition, leaders' political and negotiating skills also contribute to developing alliances with other institutions, whether to tap economies of scale for social ventures and to share experiences or to have other organizations join their cause or develop similar initiatives.

In complex structures such as the ones developed by conglomerates, tensions often surface between individual operating units, either as a result of their struggle to obtain economic resources or of conflicting interests arising among their respective activities. IO, a Spanish organization specializing in development cooperation and humanitarian aid for Latin American, African, and Asian nations, maintained several departments working in a number of fields, including campaigns and surveys, internal management, communications and marketing, and international cooperation. People in each department had their own subcultures, which triggered frictions across the organization. For instance, some individuals seemed more focused on effective and efficient management, while others were keener on both organizational mission and vision; some wanted IO to concentrate on advocacy, and others were more interested in developing new projects. Key appointments, organizational globalization, and economic resource distribution among departments also gave rise to tensions that could jeopardize overall performance.

Ignasi Carreras, IO's director at the time, and his management team faced the challenge of smoothing these internal frictions. This complex scenario called for their political and negotiation abilities to uphold a common strategy across the conglomerate's components, despite their differences. Mechanisms such as institutional value reinforcement and clearly defined rules to handle potential conflicts of interests were used to strengthen the ties between departments. For example, IO leadership was aware that in activities involving the communications and marketing department and the campaigns and surveys department, actions undertaken by the latter were always prioritized. Through his professionalism and the relentless coherence between his values and his management of daily operations, Carreras had contributed to ensuring IO consolidation and growth and avoiding internal rifts in the organization. His political and negotiating skills turned out to be crucial for the organization's strategic planning, which demanded a balance between diverging internal interests, issue prioritization, and resource allocation to a number of activities. Although it is impossible to please everyone, the needs of some should not be satisfied at the

expense and resentment of others. Leaders in conglomerates should use their political and negotiating abilities to smooth away internal tensions and to avoid focusing on disagreements that may endanger institutional stability. Above all, organizations should strive to maintain their alignment to their values and mission.

Leaders of social conglomerates also resort to their political and negotiating ability to build strategic alliances among social actors in order to enhance the social impact of ventures and to reap vast benefits for partners.[6] In 1991, the Argentine candy manufacturer Arcor created its namesake foundation to professionalize its community-oriented social activities, for personnel needs would be addressed by human resources policies. From the outset, it was clear that community work encompassed more than the specific areas surrounding Arcor plants, and so the foundation should pursue a broader path. Social projects developed by the Arcor Foundation focused primarily on education for children and youngsters. From the beginning, the Foundation had concentrated on consolidating its structure—seeking to make it independent from the company itself, reinforcing and professionalizing its social management model, as well as growing. It was not until 2003 that an attempt was made to operate jointly as a social conglomerate, that is, to create synergies between the Foundation's actions and the company's strategy for mutual benefit. Organization leaders had built alliances with domestic and international institutions (such as the World Bank's Inter-American Foundation and UNICEF) to develop joint projects and to increase social venture growth. Referring to alliance value, Claudio Giomi, Foundation manager, explained:

> You may think that, since we are an organization that provides resources, a basic synergy to be captured would emerge from partnering with other donor organization in order to have more resources. Actually, in time, we came to realize that there are many other synergies that have to do with learning. We have learned a lot from other organizations that are far more advanced on this topic, and this has been very good in terms of complementarities between us and them. We have experienced systematized learning in terms of management as a result of working with others. We have learned many valuable lessons associated with actions and challenges in different scales.

The development of effective partnerships that benefit both parties requires coordinating efforts with people with a different organizational

culture, as well as assigning responsibilities and budgets. Both tasks call upon the political and negotiating abilities of the persons who lead social conglomerates.

Another task for social conglomerates' leaders is to enhance the external visibility of their ventures. Greater exposure allows initiatives to serve as inspiration for other organizations to launch similar ventures or to collaborate. Among the sugar industry players in Guatemala,[7] Pantaleón's leadership seemed to be just right to ensure that other organizations follow its example. Still, much political ability was needed to build ties with other sectors and to promote social initiatives on a nationwide level. In social conglomerates, the reach of leadership goes beyond organizational boundaries; accordingly, the company fostered corporate social responsibility across the country through its Pantaleón Foundation, its Fundazúcar, a union organization in charge of building ties between sugar producers and sugarcane growers, and its Center for Corporate Social Responsibility (Centro para la Responsabilidad Social Empresarial, hence CentraRSE), whose goal was to disseminate the significance of social responsibility among domestic private companies. Each organization had its own criteria and priorities, but all three shared common values and worked to foster social responsibility in Guatemala. In recent years, other sugar mills imitated some of Pantaleón's management practices, after competitors realized that its social programs had reaped benefits for both nearby communities and the company itself. The political leadership role played by the company helped sugar-cane workers and cutters to demand better working conditions from other mills, an activity which, in turn, helped to raise the sector's social standards and to improve its image. Success is highly inspirational.

Key Aspects to Consider

Social venture leadership is viewed as the capacity to drive transformations and to obtain outstanding results. The analysis of the above cases has confirmed the significance of leadership in social venture performance, throughout four organizational development and learning stages. Social initiatives are usually started under charismatic leadership. Institutionalization turns the initiative into an organizational phenomenon—a process that may be more effective under managerial leadership. When social ventures go through decentralization, leadership is delegated to independent units, and a more interactive approach becomes more suitable. In social conglomerates, leadership takes on a more political perspective across organizational levels and provides a sense of unity. Leaders of these initiatives

perform different roles, depending on ventures' evolution and requiring—or benefiting from—specific abilities. These skills also gradually turn from personal abilities into institutional capacities. Leadership accounts for a complex and dynamic variable that should evolve in order to respond effectively to the varying challenges presented in each stage.

In the initial stage, social ventures are usually founded by a single individual who often becomes the project's leader mobilizing resources to implement his/her idea and using his/her contact network or hierarchical position. To succeed in this stage, leaders must be entrepreneurs. Leaders who enjoy an acute diagnostic ability will be able to gain a better understanding of the nature and effects of social problems affecting their environment. Thus they will be able to design effective ventures to address those issues. Leaders of CSOs may need a larger dose of entrepreneurial skill because they need to create an institution in order to realize their initiatives, while in private companies leaders normally have greater availability of resources within their already established organizations. In turn, some CSO leaders may be better diagnosticians than their private company counterparts because of their greater experience and knowledge of social issues, or their need to raise financial or political support from other actors.

Once ventures start operating, leaders must try to institutionalize their social initiatives to ensure that organizations will remain when they retire. In the institutionalization stage, leaders develop the necessary organizational structures, policies, procedures, and systems to incorporate social ventures into companies or CSOs. To this end, leaders should reconcile social ventures with business strategies, in the case of private companies, or with organizational missions, stakeholders' interests, and environmental changes, in the case of CSOs.

During this stage, leaders seek to achieve organizational efficiency and effectiveness through sound administrative structures, ensure enough financial resources, and set up teams of motivated and committed collaborators who will embrace social ventures as their own. Leaders' abilities to harmonize social ventures and stakeholders' agendas and to motivate their personnel both add to the development of required organizational structures. Nonetheless, venture institutionalization would not be secured unless these skills are enhanced by leaders' social vision and commitment.

Case studies show that organizations that wish to grow and diversify their ventures after their institutionalization process is complete start to decentralize their operations. Thus social ventures become autonomous through horizontally and vertically integrated units—that is, synergized units that perform complementary functions in social projects' value

chains. At this stage, leadership has to ensure that the independent units function efficiently and effectively. To this end, leaders should have the ability to delegate responsibilities to teams that will be in charge of these units. In recruiting, empowering, and mentoring future social venture managers lies the key to delegating leadership. Therefore leaders of decentralized organizations bear a double responsibility: a central role dealing with strategic functions and a divisional, more executive role that oversees independent units' operations.
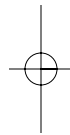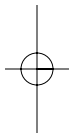
When decentralization has been intense and broad, functional duplication, emerging tensions between independent units, and diversified social venture portfolios lead organizations to undergo a significant structural change and to start operating as a conglomerate. This complex organizational structure requires substantial control and coordination efforts from leaders to ensure efficient operations. Leaders in organizations that form a social conglomerate framework must ensure that all initiatives—though operating independently—are part of a common strategy, reconciling their interests and exploiting synergies among multiple activities. At the same time, leaders should focus on developing strategic alliances with other social actors and promoting social venture visibility. To perform these roles effectively, leaders use their capacity to coordinate, as well as their political and negotiating abilities.

There are many kinds of leaders and many leadership styles. Social ventures should be able to survive once their founding leaders have retired. They should also grow and diversify their portfolios within a suitable organizational structure and under a leadership that builds distinctive capacities into the organization at every evolutionary stage. Good leaders are all different. The only thing they have in common is their outstanding record of achievements through social ventures. There are many leadership styles, but what ultimately counts is the leaders' ability to accomplish the desired results.

Notes

1. See Bernard M. Bass and Bruce J. Avolio, *Improving Organizational Effectiveness through Transformational Leadership* (Thousand Oaks, CA: Sage Publications, 1994); Deanne N. Den Hartog et al., "Culture Specific and Cross-Culturally Generalizable Implicit Leadership Theories: Are Attributes of Charismatic/Transformational Leadership Universally Endorsed?" *Leadership Quarterly* 10 (1999); Robert J. House, *Culture, Leadership, and Organizations: The Globe Study of 62 Societies*, *Global Leadership and Organizational Behavior Effectiveness Research Program* (Thousand Oaks, CA.: Sage Publications, 2004).

2. Alfred Dupont Chandler, *Strategy and Structure: Chapters in the History of the Industrial Enterprise* (Cambridge, MA: M.I.T. Press, 1962).

3. Larry Greiner, a student of Chandler's, identified five stages in organizational evolution and focused on organizational size as a determinant factor for changes. See Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 76 (1998).

4. Allen Grossman and Daniel Curran, "EMCF: A New Approach at an Old Foundation," HBS Case No. 9-302-090 (Boston, MA: Harvard Business School Publishing, 2002).

5. Michael E. Porter and Mark R. Kramer, "The Competitive Advantage of Corporate Philanthropy," *Harvard Business Review* 80, no. 12 (2002).

6. James Austin et al., *Social Partnering in Latin America: Lessons Drawn from Collaborations of Businesses and Civil Society Organizations* (Cambridge, MA: Harvard University Press, 2004).

7. Strictly speaking, Pantaleón's social initiatives do not yet constitute a conglomerate, but this case suggests a strong leaning in that direction. In fact, leader Julio Herrera influences the contents and social initiatives of the organizations he helped build and where he still plays a managerial role, such as CentraRSE, Pantaleón Foundation, and Fundazúcar. Additionally, Pantaleón's regional expansion to Nicaragua, as well as its plans to expand to Brazil, Mexico, and Panama, clearly anticipate the development of similar social programs adjusted to local conditions and, at the same time, are fully consistent with the guidelines set by Pantaleón's leaders in Guatemala.
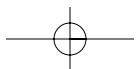
3

Strategy in Social Enterprise

Our purpose in this chapter is to: (1) identify the elements that contribute to the positive performance of strategy in social enterprises carried out in companies and CSOs; and (2) examine how these strategic variables operate in order to achieve further performance enhancements.

The importance of having a clear strategy lies in the need to establish the direction an organization should follow and to guide it along its way. Although strategies are not always implemented in their entirety, they nevertheless help an organization know where it is in relation to where it would like to go. In an interview, Charles Handy stressed the importance of this point: "it's no good having a brilliant strategy and structure and great people unless there is some reason for it. And it doesn't get you very far to go around saying how wonderful things will be in the future without knowing how you might get there. This combination is rare."[1]

We can therefore define organizational strategy as "the long-term direction and scope of an organization [which jointly] allow it to obtain advantages by re-configuring its resources in an ever-changing environment in order to meet market needs and stakeholders' expectations."[2] Thus strategy is also the way by which an organization relates to its environment, adapting itself to it, anticipating future changes, and—wherever possible—shaping the future.[3] In the case of social enterprises undertaken by companies and CSOs, strategy should focus on satisfying social needs and/or making social transformations that would also guarantee the organization's viability and performance. In some cases (though not necessarily all), one can add the aim of achieving organizational growth and—for companies—making profits. According to the conceptual model adopted in this book, the aim of social enterprise is to ensure the creation of social value and economic value. In some cases this means attaining financial sustainability, and in others, strengthening one's competitive position.

It would be wrong to assume that strategy consists of unalterable principles or immutable laws. It does, however, represent main objectives or proposals that are woven together in the form of explicit policies and plans to achieve these ends, and which, in an ideal world, are drawn up in accordance with the organization's mission. These policies provide the framework for

the daily decisions that determine a company's position with regard to its business environment. Accordingly, a well-designed strategy should identify who the firm targets its activities at, the services it provides, what the firm does, and what differentiates it from similar organizations.[4] As Kenneth Andrews puts it, a company's goals, policies, and plans establish what it wants to be and what kind of business or other activity it wants to get involved in.[5]
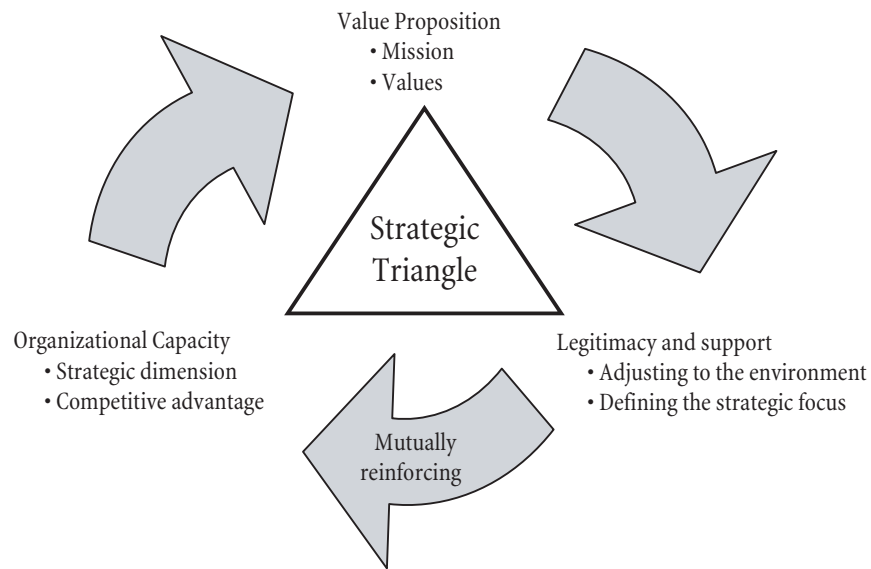
Here, we seek to identify the elements in strategic planning which contribute most to improving the performance of social enterprise. We will use and adapt Mark Moore's "strategic triangle" for carrying out this analysis.[6] Moore's model will help us analyze social enterprise, given that it stresses the importance of defining the value each organization seeks to create. In the case of social enterprise such value is twofold since creating social value is compatible with creating economic value.

The apex of the strategic triangle (see Figure 3.1) represents the "value proposition," which reveals its orientation, its point of reference. Such a proposition enshrines the company's commitment to meeting an unsatisfied community need, and it shapes its mission and values. When companies fulfill this promise, they create value for the community. In other words, when it comes to social enterprise, carrying out the mission is the same as creating value. However, value creation may involve taking two paths that can be either alternative or complimentary: the creation of social value or financial value. These concepts are examined in greater depth in Chapter 10. In what follows, we shall deal with the creation of social value first, given that this involves a change in strategy.

The value proposition at the apex of the triangle is supported by the two legs at the bottom, without which the promise of the value proposition could not be fulfilled. One of these legs comprises "legitimacy and support" and stresses the extent to which the strategy is capable of attracting support for the value to be created. In the social initiatives studied, we have identified this aspect with what we call adjustment to the context and participation of the beneficiaries of the social enterprise. These two aspects do not appear in the strategic triangle, but for us they are a way to make it more specific. The last angle (left side) of the triangle deals with the "operational capacity." It asks whether there is enough knowledge and skills to obtain the desire results. In the social initiatives studied, we have also analyzed the extent to which companies are able to combine emerging strategies and strategic planning, and evaluated their ability to create a sustainable competitive advantage. These two ideas will also help us develop the concepts underlying the strategic triangle.

No doubt there are other important aspects relating to strategy, such as the allocation of resources and evaluation of results. These subjects are dealt with in other chapters.

Figure 3.1
The "Strategic Triangle"

Value Proposition
• Mission
• Values

Strategic
Triangle

Organizational Capacity
• Strategic dimension
• Competitive advantage

Legitimacy and support
• Adjusting to the environment
• Defining the strategic focus

Mutually
reinforcing

Source: Adapted from Moore (2000) and Johnson & Scholes (2001)

In short, the adaptation of the strategic triangle to analyze social enterprises of companies and CSOs serve to reinforce one of the central ideas in this book, namely the way in which the creation of social value is consistent with the creation of economic value. Both kinds of organizations seek legitimacy and support from their milieu and stakeholders and wish to strengthen the organization's strategic capabilities. And the two lower angles of the triangle serve to reinforce the social and economic value proposed in undertaking entrepreneurial activities.

Mission, Values, and Value Proposition

Strategy establishes through objectives, policies and plans what the organization is and wants to be, and the kind of business or activity it wants to be in. We can therefore say that strategy integrates (or at least should integrate)

a firm's mission and values with its policies and plans. An organization has a consistent strategy to the extent that its policies and action plans are properly integrated with its mission and its key values. Accordingly, strategy is far more than just the sum of a company's projects and programs. The importance for consistency between mission, values and strategies has been pointed out both by the literature on business management[7] and by that on the nonprofit sector.[8]

The distinguishing feature of social enterprise is that it aims to create social value. A clear value proposition must state both *who* the enterprise serves and *how* it serves them. This will largely determine the social enterprise's strategy. However, a company's strategy can change over time. Although this may be overlooked in the beginning, the failure to align mission and strategy with organizational competencies and strengths will result in the dispersion of effort and diminished efficacy and efficiency in the initiatives taken. By contrast, adopting a strategy that is well aligned with organizational competencies and values will endow the organization with distinctive characteristics that may constitute its competitive advantages. These ideas on the relationship that ought to exist between an organization's strategy and competencies are particularly relevant when we consider a firm's core business or the social initiative undertaken by a CSO (since this is the organization's raison d'être). Yet social enterprise is often not part of a company's key business. In this case, the alignment of strategy, social enterprise, values, and corporate competencies may be questionable. Nonetheless, even in those cases, it is likely that the effectiveness and efficiency of the initiatives taken will be greater when these are consistent with the organization's values and competencies. Put another way, an organization that embarks upon activities in which it does not believe and/or that it is not prepared for is unlikely to succeed.

In considering social enterprise, the key factors regarding consistency between mission, policies, and initiatives are different for CSOs and companies. As we have noted, the two kinds of organization adopt different approaches to social initiatives. Companies attempt to approach the creation of social value from the creation of economic value. One of their challenges is that the direction and scope of social initiatives are not always related to the company's overall mission or form part of its corporate strategy. By contrast, the CSOs (where the organization's mission by definition concerns achieving some kind of social change), tend to have a closer, more natural relationship between its mission and policies, and its social enterprise. A common problem for CSOs, however, lies in their unstable strategic focus. This may be the product of the financial weaknesses of CSOs and

may be considered a natural consequence of their nonprofit status. Such weaknesses may force them, at times when their survival is at risk, to choose strategies and courses of action that undermine their mission. Returning to the strategic triangle presented earlier, this problem may undermine the alignment between the organization's mission and values, its operational capabilities, and the support received from the context in which the organization operates. In other words, in a movement that is opposite to that of companies, CSOs need to reconcile their creation of social value with the creation of economic value. These ideas will be explored in greater detail below.

Companies: The Quest for Consistency between Mission, Values, and Strategy

When considering companies engaged in social enterprise, we need to ask how such initiatives fit in with the firm's mission, values and strategy. In other words, do such initiatives go beyond purely knee-jerk reactions and individual programs? Do they constitute an integral part of the corporate strategy?

In many cases, the most traditional relationship between companies and society at large has been of a philanthropic nature, with no strings attached. In the companies we studied, however, there is a growing trend towards greater integration of diverse social initiatives with each other and within corporate activity. Indeed, one can say that there has been a trend away from philanthropy towards Corporate Social Responsibility (CSR) and ultimately towards a strategy of corporate social innovation. In other words, there is increasing alignment between social and economic objectives which, among other things, is intended to create greater social value.[9]

The incorporation of social aims in the company mission is part of a learning process. Several of the companies studied underwent an initial learning stage in which social initiatives were carried out in a fairly chaotic, ad hoc fashion. The companies often simply reacted to demands by groups or organizations, or to legal pressure and changes in the regulatory framework. Later, companies reviewed their portfolio of social investments and discovered that initiatives that did not form part of their mission could hinder the alignment of social value and economic value. The process of integrating a social component in the company mission and its business strategy poses then a serious challenge.

Given that a company' mission underlies its corporate strategy, companies wishing to go beyond ad hoc schemes and avoid the risk of losing their way have little choice but to review their raison d'être and their business

strategy in depth. Obviously, it is not enough merely to mention social responsibility in the corporate mission or to state formally that CSR is part of the corporate strategy. In some cases, social objectives are explicitly incorporated to the mission. One example is the Venezuelan company Ron Santa Teresa, located in a semi-rural community. During the firm's 200-year history, it limited itself to meeting specific demands and undertaking philanthropic activities at the owners' behest. In 2000, when the company's finances took a change for the better, it suddenly found faced with the occupation of its premises by 400 families from the local community and an assault of its premises by young delinquents. The senior managers realized that the company needed to change its approach to social issues, which meant changing its mission. Long-term commitments were made with stakeholders (staff, customers, suppliers, and consumers) to this end. However, the company still defined its mission in narrow terms, leaving out important local interest groups (many of which had long-standing links with the firm). The management team therefore reformulated the corporate mission to explicitly incorporate investment in the community. As the firm's spokesman put it: "Ron Santa Teresa will be recognized for the outstanding quality of its human capital and business culture, optimization of processes, and *community investment* to ensure growth and sustainable development." We can therefore say that the company made an effort to reconcile the creation of economic value with the creation of social value. The measures taken at the mission level indicate increasing institutionalization of the company's social investment portfolio.

In the analysis of a company's strategy and mission, one needs to consider also the values implicit in social initiatives and their consistency with corporate values. There may be trade-offs between equally desirable values but in some cases it may be possible to steer a middle course that does not involve renouncing any of those values. Inditex, a Spanish textile multinational, has outsourced most of its production to workshops in Latin America and Asia. While this boosts employment in those countries, one should not forget the fine line between job creation and sweated labor. Inditex has been working on this issue over the last few years in an attempt to ensure that its social and business efforts pull in the same direction. This has brought improvements in the areas of training, health, and safety, and even in the layout of buildings in its outsourced workshops to ensure they meet standards. The values underlying this corporate social strategy were clearly stated: good faith, dialogue, and transparency. As a next step, efforts are being made to incorporate these values in the company's overall strategy. Inditex is also trying to publicize the advances made both within and

beyond the firm. As we shall see in Chapter 8, this required measurement of the whole process. But, for our purposes now, what is interesting is that the company has made clear the values underlying this corporate social strategy: good faith, dialogue, and transparency.

To sum up, we have discovered that integrating business activities and social initiatives in a coherent fashion poses significant corporate challenges. Initially, such social initiatives tend to be of a purely reactive nature and are not necessarily consistent with one another, let alone with the company's business. Creation of social value does not usually form part of the firm's mission at this point. Over time, companies learn from their experience, their relationships with various players, and their achievements in generating social value. This learning is slowly incorporated as part of the values of the company and finally might enter into the company mission, when it becomes a sign that the company's social initiatives constitute a long-term engagement. Leadership and the visibility of early results are essential in achieving greater consistency between the firm's social enterprise and its mission. Next, one needs to consider the extent to which social initiatives are institutionalized in the company and how well they are known, understood, and participated in by most employees. Finally, when enthusiasm for these projects is widespread, the challenge might be to strike the most productive balance between the company's business goals and its social objectives. The cases studied reveal the complex process of combining plans, policies, and initiatives in order to get the desired results. This merging is all-important in carrying out the strategy successfully.

CSOs: The Challenge of Maintaining Consistency and Achieving Alignment

The mission of CSOs is not to make profits but to serve social needs. Accordingly, such organizations tend to be weak when it comes to financial planning. They must therefore continually draw up strategies for reconciling achievement of their social aims with the need to survive as organizations. CSOs' lack of resources means they often have to review their strategic focus and mission. The two main challenges facing CSOs are the need to ensure their survival as entities without forgetting their raison d'être, and to ensure consistency between strategy, mission, and available resources.

CSOs often depend on external funding. They have to meet the challenge of obtaining funding while fulfilling their mission and maintaining their strategic focus. The leaders of such organizations often face a dilemma: to accept or reject some funding which would push them to alter

the CSOs mission/strategy because of fund-providers' preferences. Successful CSOs achieve consistency between strategy and the context in which they operate, which includes the possibilities for funding. This is the case of Pro Vivienda, which had successfully developed a program of loans and technical assistance to residents of Buenos Aires who wanted to build their own homes. But demand for loans fell significantly in Argentina following the country's financial crash. This led to a crisis in the organization. It was under these circumstances that the CSO entered the Development Market Place competition, with a project for distributing natural gas. Pro Vivienda won the tender and as a result moved away from home construction to urban development. This organization decided to change its mission and strategic focus to suit the setting in which it operated. It also used its existing capabilities and developed new ones to ensure stronger alignment between the new strategic focus and organizational strengths. This allowed Pro Vivienda to continue with more tightly focused strategies that delivered greater social value.

The pattern of dependence on external funding means that the leaders of CSOs need to be aware of the vulnerability of their organizations. The organizations mentioned were able to reorient their missions, which changed because of the unavailability of funding. Such changes in direction could well give rise to disputes inside CSOs, for some members and employees might object to what they see as "mission drift" or even treason to the founding principles. These eventualities need to be taken into account, given that legitimacy and support (one of the angles of the strategic triangle) for the organization could be undermined as a result. It would appear that CSOs leaders can successfully manage such changes if the decisions accord with the values of their organizations. This alignment allows them to mobilize the internal support needed to legitimize a strategic change and gain the approval of senior management, governing body, and line staff. It also allows them to enlist vital external support, which is usually based on other similar organizations and/or public administrations.

The development of its own, stable sources of funding is another way of ensuring the long-term survival of a CSO. When an entity chooses this strategy, its leaders need to strike a balance between self-funding and the organization's raison d'être (that is, social change). In order to ensure the organization's survival, CSOs leaders might find themselves having to pay more attention to the business side of things than to the organization's social ends. Thus Profamilia, a Colombian CSO, focused its activities exclusively on family planning for some 25 years because that is what international bodies that funded its projects were interested in and wanted

to spend money on. When Colombia's birth rates approached those of the developed world in the early 1990s, international bodies switched their funding into other countries with higher birth rates. Profamilia was then forced to diversify its range of services in order to ensure the organization's survival. In the process, it stumbled across a profitable niche: services providing infertility treatment. The issue that arose in the organization was whether this shift towards "the promotion of sexual and reproductive health" to include infertility treatment broke with Profamilia's raison d'être. The solution involved striking a balance between the organization's mission and its funding needs.

Towards the end of the 1990s, INBio in Costa Rica noted that international donations were beginning to fall off. In 1998, it developed a strategic funding plan in which the aim was to fund 66 percent of its expenditure from its own resources by 2006. The central feature of the plan to reduce dependence on external funds was the establishment of a theme park. Some members of the organization expressed concern that the effort put into the fund-raising would distract the CSO from its biodiversity conservation mission. At issue was the extent to which the new business activity and its associated educational component were compatible with the organization's raison d'être.

In conclusion, one of the main challenges facing the leaders of CSOs is how to ensure the survival of the organizations they head in an ever-changing setting while remaining true to the original mission. Dependence on external funding can push such organizations in unforeseen directions (which tend to reflect the preferences of donors rather than the founding principles of the recipient organizations). In addition, attempts to free the CSO from sources of external funding by undertaking new commercial operations carry the risk of the organization losing sight of its original purpose. The task for CSOs leaders is to find solutions that reconcile funding needs and social strategy. The cases studied show that it is possible to make changes to the mission and/or strategy without losing sight of the CSO's purpose. The key is ensuring that such changes increase rather than diminish the social value produced by the organization's work—something that undoubtedly underlies the success of some of the CSOs studied here. These have shown themselves capable of creating social value and economic value without renouncing their aim of achieving social change. That these CSOs have managed to strike such a balance is not only apparent to staff but also to stakeholders, thus enhancing the organization's legitimacy (which happens to be one of the vertices of the strategic triangle).

Values as the Organization's Cornerstone

The type of strategy and its development in companies and in CSOs alike are linked to the organization's core values (the beliefs and preferences that guide them), which in turn determine its mission.[10] As we have seen, there may be strategic shifts and even a complete redefinition of an organization's mission. These changes are easier to carry out if core shared values are maintained. Thus a prudent organization may fail if it suddenly adopts a highly aggressive, ambitious strategy, and vice versa. In the Intermón Oxfam (IO) case, the tension between different organizational values assumed and defended by the members of various teams increased as the organization grew and so did its funding needs. For example, marketing campaigns to recruit new donors can get increasingly complex and draw upon more resources. This creates tensions with the members of the organization who would rather maximize the resources channeled toward beneficiaries. The contrary can also occur: for example, campaigns protesting against the actions of certain companies in Latin America may limit the opportunities for fundraising from their corporate headquarters in Spain. These tensions between organizational values and new funding needs are difficult to solve. In the case of IO and the other CSOs studied in the sample, staff and communication policies were adopted in an attempt to reduce such tensions. Even so, tensions persist and the secret of success seems to lie in striking the right balance. That is why it is essential to maintain continuity in the governance of the CSO in order to remain true to core values (see Chapter 7).

Values commonly found among social entrepreneurs are: sensitivity to social injustice, concern for the weak, and concern for the environment and future generations. Whether implicit or explicit, one can also find values such as the will to transform society. As a means to these ends—and sometimes as an end in itself in harmony with the social end—one can find the will to strengthen and expand the organization (that is, the will to create economic value). This is also a shared belief or preference that guides and motivates an organization's actions. In INBio's case, the creation of a theme park is a good example of how the NBO added a proposal for creating economic value in order to achieve its social end—namely, the conservation of biodiversity.

Although there is no absolute coincidence, an organization's shared values often reflect the values of its decision-makers and influential individuals. The personalities and beliefs of the founders of social initiatives are of major importance in such organizations. These people exercise considerable sway in their organizations and their immediate settings. In general,

they grasp the importance of providing value and striking a balance between social and economic considerations, and of going beyond mere philanthropy.

In summing up this section on mission and values, one should note the difficulty that CSOs experience in heeding needs and funding requirements while remaining true to their core values, and that firms experience in squaring the creation of social value with business imperatives. In both cases, the tension arises from a conflict between creating social value and creating economic value (though CSOs and firms have different priorities in this respect). CSOs are better suited to creating social value and have more difficulties in creating economic value without losing their focus. Most companies, on the other hand, were not founded with the idea of taking into account the creation of social value as part of their strategy. Hence they find it difficult to incorporate the creation of social value in their mission, values, and process, while making sure this does not interfere with the task of making profits.

Legitimacy and Support

Companies and CSOs share the notion that an important part of their strategy consists not only in serving clients and donors, respectively, but also the wider public that legitimates their activities. In the case of companies, this includes the communities where the company operates, its suppliers, customers, and staff. For CSOs, it includes companies, other CSOs, and communities. In both situations, the beneficiaries of social enterprise constitute an important component.

Another strong source of support for organizations lies in the consistency they demonstrate in pursuing their missions. The social initiatives studied here reveal the difficulty of striking a balance between a constantly changing mission (mission creep) and a reluctance to allow mission development (mission stickiness). A poorly focused or changeable strategy may also delegitimize the organization. Thus it is very important to define a strategic focus in which mission and strategy are consistent, because it is a source of long-term legitimacy and support. We shall now examine these two aspects—environmental fit and definition of scope—in the context of the strategic triangle presented earlier. Both aspects are vital in helping to provide the support and legitimacy needed for successful social initiatives.

The Quest for Legitimacy in the Environment
Our 40 sample cases show that the quest for legitimacy is an important aspect of the social initiatives undertaken by CSOs and companies. Private

companies generally focused on improving the living conditions of the communities in which they operate. In some cases, these improvements affect the lot of company workers and their families, and in a few others, they cover social benefits for other company stakeholders (suppliers, customers, and other organizations). This is a source of legitimacy for an organization with external audiences, and local, national, and international communities. One can say that the social initiatives analyzed both in companies and CSOs are mostly based on "strategic approaches to management of stakeholders."[11] Good environmental fit at both general and specific levels contributes greatly to the success of such initiatives and helps reveal stakeholders' different points of view, needs, and possible contributions.

Achieving a better fit between an organization and its environment is one of the main aims of strategy. Accordingly, strategic management requires analysis of the environment, the macro-setting (which takes in political, economic, social, technological, and demographic aspects; see Figure 1.1 in Chapter 1) and the firm's most immediate setting (which includes customers, suppliers, competitors, and so forth).[12] In reference to changes in the macro-setting that encourage companies to undertake social initiatives, the corporate leaders meeting at the Business Council for Sustainable Development stated in 1992: "The world is moving towards de-regulation, private initiatives, and global markets. This means that companies will have to assume greater social, economic, and environmental responsibility in defining their roles and actions."[13] There can be no doubt that the changes that have occurred over the last few years at both the macro and micro scales have greatly contributed to putting the subject of corporate social responsibility on company agendas.

In general terms, we can say that the majority of the initiatives studied by the SEKN network concentrate on the setting. As we saw, Pro Vivienda changed its strategy to accommodate rapid change in the setting in which it operated. The managers of Mexico's Fundación Comunitaria Oaxaca stressed that "understanding the local context was vital in grasping the needs of local organizations and people and serving the Oaxaca community." Another case in Mexico, Cemex, also reveals that analysis of the setting is very important in defining strategy: "Socio-economic studies were carried out by external professionals at the Guadalajara, Mérida, Monterrey, and Taquín plants to identify the basic needs of the community and to draw up initial social programs." Indeed, although a study of the social and political setting is not always a first priority, it should form part of the development of social enterprise. The positive contributions of analyzing the setting include better risk management, greater chances of obtaining

resources, and more knowledge of beneficiaries' needs. In short, such a study enhances an organization's value proposition and helps it carry out the mission better. This creates positive feedback, leading to greater support and legitimacy.

For some of the cases analyzed, organizations had to change the strategies of their social initiatives to adapt to highly unstable political and economic settings. The organizations' ability to maintain internal consistency in the face of continual changes is one of the reasons for outstanding performance. As we shall see, the legitimacy cornerstone is strongly linked to operational capability, which is essential for allowing the organization to adapt to changes in its setting. The strategies of companies like Ron Santa Teresa and Compañía Anónima de Teléfonos cannot be understood without a thorough grasp of the political situation in Venezuela at the time. In Colombia, the strategies of the Hocol Oil Company and Alpina (foodstuffs) only make sense when seen against the background of three decades of conflict in the country. Similarly, the economic crisis afflicting Argentina in the late 1990s provides the key to the social initiatives undertaken by the Arcor and Acindar companies. These are all corporate examples, but the same holds true for the CSOs analyzed in these countries —for example, Fundación Pro Vivienda in Argentina. The important thing is to react to changing settings in order to create social value and obtain support and legitimacy from the interest groups catered to by the organization. However, the issue goes beyond legitimacy; in all of the corporate cases cited, social strategies were directly linked to the companies' viability, given that they operated in politically polarized, conflict-ridden settings that pose considerable business risks. Hocol and Santa Teresa would have found it difficult to continue doing business without incurring prohibitive costs had they not adopted strategies aimed at improving living conditions in local communities.

It is also worthwhile to take into account the beneficiaries and stakeholders affected by initiatives. Such an approach is found in most of the initiatives examined by SEKN. Successful social enterprise generally requires implementation by its beneficiaries. Both companies and CSOs attempt to engage these beneficiaries in solving social problems, and to expand their understanding of how the organization's value proposition fits, relates to, and influences the intended recipients. The aim here is to increase participation in the organization's immediate setting to create as much social value as possible. Although such a process is often long-winded and difficult, some of the most successful schemes featured joint analysis of the setting with beneficiaries and other stakeholders. A good

example of this is Hocol. Although the company initially carried out a study to set the priorities, these were subsequently approved by the local community, which gradually took control of the process and began analyzing and managing its own needs.

Several of the cases highlight the problems that arose from the organization's failure to conduct a proper study of its interaction with its milieu or its inability to grasp who the main actors were. Perhaps one or more groups of stakeholders had been ignored or a spokesman for a group lacked broad support from those he was supposed to represent. An illustrative case is furnished by Fundación Proyecto Paria. The crisis in Venezuela forced the Foundation to pull out of Carioca, an association it had formed with cocoa producers. One of the causes of its withdrawal was that the Foundation, as a spokesperson put it, "lost contact with the grassroots . . . We placed greater trust in the leaders than in grassroots members." The failure to conduct a comprehensive analysis of the actors and to maintain fluid contacts can lead to organizational difficulties that hamper social initiatives. Losing track of the actors can lead to misunderstanding of what is actually needed, and also to loss of support of the various interest groups involved. Hence the need to thoroughly grasp just who the beneficiaries of social enterprise are.

Strategic Focus as a Source of Support

It is easier for an organization to gain support and legitimacy from its setting if it has a well-defined strategic focus. In other words, it is easier to get things done if internal and external stakeholders can see what the organization is doing and the scope of its social activities. Otherwise the organization may lose legitimacy. The strategy defines the scope of the organization's activity. For example, does the organization concentrate its social initiatives in one field, or does it encompass many fields and activities? Organizations need to be aware of the risks posed by excessive diversification. Returning to an example given earlier, INBio operated in the following five areas: inventorying and monitoring the country's diversity of species and ecosystems; conservation (information on decision-making processes concerning conservation and the protection and sustainable exploitation of the country's biodiversity); education (basically focusing on INBio Parque, a theme park introducing visitors to Costa Rica natural heritage); bio-computing (development and application of computing tools to process biodiversity data); and bio-prospecting (seeking sustainable commercial uses for bio-diverse resources). Some INBio activities are also tourism-related (the theme park), and some are linked to the business

world (commercial applications in biodiversity). While all of these activities bear directly on the organization's mission, they nevertheless cover a very wide range. Moreover, these activities can be carried out in many different ways. The key to their success lies in achieving consistent integration and synergy. In general, one can say that in most of the cases studied, success was closely linked to careful definition of the scope of initiatives. However, from a dynamic standpoint, one should note that the scope of projects was not necessarily well-defined at the outset and that it often broadened over time, thus increasing the risk of over-extension and dispersion.

Most of the literature on the management of social initiatives also advocates concentrating on selected areas in order to increase the chances of success and maximize social value.[14] An oft-quoted example is IBM, which in 1994 sold its art collection and some of its buildings to create the IBM International Foundation and to pursue a new social strategy. The IBM "Reinventing Education" program focuses on the digital divide and how IBM technology can help achieve equity and excellence.[15]

Most of the cases examined underline this point, but there are significant differences between the two kinds of organizations studied. The CSOs usually came into existence with a clear focus on a given social problem or challenge. This was INBio's case, and it is also true of other organizations such as Intermón Oxfam (founded to end famine), Fundación Proyecto Paria (founded to develop the Paria peninsula), Profamilia (established to provide sex and reproductive health advice and care), and Crear Vale la Pena (employing art to work social changes). There are some exceptions: Fundación Comunitaria de Oaxaca (Mexico) evolved in a way similar to that of the social initiatives of companies (perhaps owing to the important role of the business community in launching this initiative). As its managers admitted, it began "with any number of projects throughout Oaxaca State in order to benefit as many people as possible." Later the foundation changed its strategy, "limiting its activities to a micro-region, and concentrating resources to achieve the greatest impact and to avoid the dispersion evident under the old strategy." Thus it started with dispersion and moved towards focalization.

Unlike most NPOs, companies and company foundations tend rather to engage at the start with projects going in different directions and later realize the need to focus. Most social entrepreneurs interviewed during the elaboration of the SEKN cases stressed the need to find clearly defined areas of action. As a Fundación Hocol manager put it, "people informally requested help from the company, which the firm granted. People from the communities often waited outside the company gates for some kind of

assistance. We attempted to distribute this in an equitable fashion but it was all pretty ad hoc." This led Fundación Hocol to reconsider its social strategy. Many other companies went through a similar learning process, which led them to concentrate their efforts and resources on a particular objective or area, to avoid creating a relation of dependence or paternalism with the local communities.

By paternalism we mean a patronizing attitude that companies and CSOs can adopt in meeting individuals' request for help by either simply giving them what they ask for (whether in full or in part), or by failing to take beneficiaries' real needs into account. In both cases, the attitude is one of not engaging with individuals and not involving them in the solution of the problems. Needless to say, this kind of attitude does not help beneficiaries to develop and become more independent. Such an approach is often an easy way out of the problem, for both company and recipients, but it is not the best way to create lasting social value.

One way to escape paternalism and to clarify the scope of social enterprise is to establish well-defined collaboration with beneficiaries and CSOs. The case of the Cemex multinational is enlightening here. Up until the 1990s, the company met virtually all the demands of the communities in which it was based, following a philosophy which the company termed an "open door." One of the firm's managers, speaking of this stage, said: "they came whenever they needed something—but also if they did not need anything and we were often not even aware of it." Cemex changed its strategy in order to focus on particular initiatives instead of adopting a broad-brush approach. The company spoke of the shift in the following terms "The main change in Cemex Mexico's approach to social program management has been a move away from a model based on patronage towards another based on collaboration and the quest for sustainable community development." The choice of a collaboration-based approach led to work with community spokesmen and to the creation of strong alliances and sound proposals.

Defining a strategic focus is neither obvious nor automatic and is often the result of trial and error, influenced by external circumstances. It also involves risks. The case of Fundación Orsa, Brazil (an initiative by the Orsa paper group), highlights the difficulties of organizational focus and scope. The Foundation's mission was highly specific: "To promote integrated care and training to teenagers at personal and social risk." Orsa subsequently took over another Brazilian paper company, Jarí Celulosa. The latter firm had its own social programs but Orsa, on taking control, considered that

priority should be given to the programs that had greater affinity with those undertaken by Orsa. Local communities protested, resisting new social proposals for fear of losing existing aid. The discontent of former beneficiaries losing out under new arrangements is thus one of the risks involved in refocusing programs.

This reveals the relationship between the vertices of the strategic triangle discussed earlier (Figure 3.1): the value proposition enshrined in the company's mission must take potential beneficiaries into account, given that they are the ones who lend it legitimacy. While it is obvious that one cannot please everyone, one should nevertheless consider the impact of changes. The managers of a company's social program need to take into account: (a) whether the discontented individuals constitute a relevant interest group capable of influencing the firm's activities and whose legitimacy is indispensable for the firm; (b) whether the discontented groups are simply on the take and exercise no influence over the company, in which case refocusing strategy may prove positive despite the stir it causes; or (c) whether there are more delicate situations in which existing beneficiaries, although unable to influence the company, nevertheless constitute a group of the genuinely needy who, if deprived of aid, would create a grave social problem. When reorientation is planned, the managers in charge of social programs should take account of such difficulties by introducing changes gradually, while speaking to and collaborating with the people affected and with other social organizations. This is preferable to simply adding new projects in an attempt to paper over the cracks, which runs the risk of dispersing one's efforts and decreasing social value.

Summing up, the social programs of CSOs and private companies face different challenges. CSOs usually have a clear idea from the outset as to the focus of their activity. They start off with a specialization strategy and tend to diversify their activities later on. The challenge for CSOs is to maintain consistency with the organization's mission instead of simply accumulating new activities (which are often spurred by the need to obtain funding). In reality, this process of "mission creep" is a continual one; it can cause serious rifts between the organization's various subcultures and present a confusing image of the entity to society at large. Companies generally face the opposite problem, given that they tend to embrace a wide range of social initiatives in the beginning and only realize the need for concentration later on—which can lead to problems with beneficiaries. CSOs and companies that fail to avoid these pitfalls can risk losing legitimacy and support.

Creating Operational Capability

The Strategic Dimension of Operational Capabilities

One of the functions of strategy is to help organizations rule out options. Mintzberg argues that this responds to a psychological need to settle the big issues—at least for a while—in order to concentrate on the details.[16] Once having decided upon a strategy, the organization can focus on its operational capabilities and try to achieve a competitive advantage.

Strategy affects the long-term orientation of an organization and thus requires planning (or at least this is what classic management theory holds).[17] However, sometimes companies had made their plans and then been forced to change them suddenly because of external factors. This is what happened to Ron Santa Teresa (Venezuela). Just when the company was beginning to make a financial recovery, a new crisis hit it with the occupation of its lands at Hacienda Santa Teresa by a group of families from the El Consejo community. The company's managers immediately realized that they firm needed to take social measures just as they had taken financial ones and, in the process, change the nature of the company and its relationship with local residents (many of whom had ties with Ron Santa Teresa). The company decided to invest in creating operational capabilities to meet similar challenges in the future and avoid being caught by surprise again. Eventually, the firm's investment in the community came to form an integral part of the corporate mission. As a result, the company's relations with the community and its reputation improved greatly. The whole episode evidences what Mintzberg would call an emergent strategy, which was not planned for but rather imposed by circumstances.[18]

The cases studied illustrate the classic debate between the idea of strategy as a product of painstaking planning and strategy as something that simply emerges naturally as a result of daily decisions. From the point of view of both public and private organizations, it is vital to possess operational capabilities to meet strategy needs, no matter which of these two categories they fall into.

According to the classic planning model, one begins by analyzing the setting, evaluates different options, and implements the most appropriate one. This process includes setting policies, identifying key aspects, decision-making, implementation, and subsequent evaluation of the results.[19] Analysis of the social initiatives studied suggests that the sample organizations often use a mixture of planned and emergent strategies.[20] In other words, there are various ways of understanding strategy, and successful organizations are capable of providing different responses to different situations. As the Ron Santa Teresa case indicates, new and unforeseen cir-

cumstances can arise that radically change an organization's strategy. Social initiatives do not always come out of critical situations and radical demands, but when they do, they are likely to be dealt with through an emergent strategy, with the "planning" coming later. The process can work in reverse—that is, from emergent to planned strategy or vice versa. What we discovered in most of the cases studied was that the organizations concerned had either built up operational strategic capabilities or were in the process of doing so. Thus, for example, Profamilia upgraded its computing capabilities and staff training in order to operate more effectively in the competitive setting created by new legislation (Ley 100).

An interesting example is provided by Inditex, a Spanish multinational. It is no easy task to establish operational strategic capabilities in a large textile company that outsources most of its production to workshops around the world. The challenge facing this multinational (which has spent years working in this area) is to shift away from merely reacting to allegations of malpractices in these workshops to taking steps to ensure that its suppliers provide decent working conditions. Inditex tries to ascertain that it does not purchase from workshops that fail to meet health and safety requirements. This means changing the strategy of the company's buyers scattered all over the world. Creating such operational capabilities takes time, but success in this field gives the firm greater legitimacy in the eyes of consumers. Preliminary results indicate that the company can take on such commitments without sacrificing competitiveness and profits.

While is clearly difficult to get strategic planning right, it is also obvious that not all organizations can produce an emergent strategy or change an existing one. An organization needs to build up operational capabilities to cope successfully with strategic discontinuities. These capabilities include having suitably trained people in management positions, building shared commitments to the organization's objectives, and understanding changes in the milieu and forging positive relations with it. Another example of strategic discontinuity concerned Fundación Proyecto Paria (FPP) in Venezuela, initially set up by the Corpomedina firm for a tourism project in the bay of Playa Medina. Corpomedina stopped its funding shortly after the Foundation's establishment, and FPP reorganized itself to seek national and international money. The new strategic concept was clearly and copiously documented, and the Foundation widened its activities beyond Playa Medina to embrace other municipalities in the Paria peninsula. As part of this strategy, FPP created an association—Carioca—in collaboration with a private company and associations of cocoa farmers. In 2003, however, the cocoa producers clashed with the Foundation and

demanded that FPP withdraw from Carioca. Leaving Carioca dealt a big blow to FPP's strategy, but the CSO quickly adapted to the new situation. The organizational capabilities that helped it to shift its strategy partly stemmed from the CSO's effort to seek greater legitimacy and support from its beneficiaries, and partly from having worked together with small cocoa farmers. As stressed at the beginning of this chapter, the triangle vertices are mutually reinforcing. Moreover, the Foundation had created ways of measuring its operational capabilities and honed its policy-making skills and its ability to analyze power relationships.

In general, we found that both the social initiatives undertaken by CSOs and by companies suffered discontinuities that forced them to adopt emergent strategies on a number of occasions. That is why it is important to cultivate the capabilities that allow organizations to respond successfully to changes in their settings. When organizations lack the capacity to understand their environments, they need to be able to obtain it from outside sources. Table 3.1 sets out these "discontinuities" in the organizations analyzed and points out those that led to the adoption of emergent strategies.

Table 3.1
Strategic Discontinuities

Organization		Discontinuity
Fundación Pantaleón	→	Strike by the union in the 1970s
Fundación Hocol	→	Strike by the community of Huila in 1991
Fundación Acindar	→	Economic crisis in Argentina in 2001
Fundación Tapsin	→	Windfall from a TV telethon forced the organization to think about what it wanted to do with such large sums of money
FECHAC	→	Founded after a storm hit the town of Chihuahua
Pro Vivienda	→	Banking crisis in Argentina
Profamilia	→	Stopped receiving funds from its main donors because they changed priorities

Some of the examples indicate that effective management often resides in the ability to react and flexibility rather than planning. However, our research also shows that the organizations have the knowledge and capabilities to adapt to changes in strategy; they are acutely aware of changes in their settings and of opportunities and pressing social needs. For example, the ACHS and Profamilia cases revealed that strategic planning did not get

in the way of their ability to detect weaknesses in time to do something about them before the organization went under. In both cases, leading figures in the organization stated that if they had not taken steps to strengthen their institutions beforehand, the organizations would not have been able to cope with the new circumstances. In the words of ACHS Director General, Eduardo Undurraga:

> We started strategic planning in 1978–79, and were the first to do so in Chile. If we had not measured results, we would have come unstuck during the 1982 recession. We knew that an economic crisis was on the horizon. When it came, it brought unemployment of 30% and made the economy shrink by 14%. We foresaw the loss of jobs and the drop in income. Worse was to follow in 1983, as the purchasing power of our income also declined. Thanks to planning, we were able to batten down the hatches and weather the storm. We created additional services during this period, based upon our strategic analysis. For example, we sold AFP collection services. It was a question of doing anything to stay afloat!

Simply reacting to fortuitous events is not the way to achieve greater social impact and consolidate the viability of social initiatives. In this respect, embarking on strategic planning is a useful exercise even if management still needs to be flexible when emergencies arise. The fact that both CSOs and companies carrying out social programs are gradually drawing up strategic plans for their social initiatives may indicate that they are beginning to realize the benefits of such an approach. One of the strengths of the most successful organizations studied here is their combination of classic planning and ability to cope with strategic discontinuities (mixing strategic planning and emergent strategies). The combination constitutes what we have termed *strategic operational capability*.

The Creation of Competitive Social Advantage

Strategic decisions are often taken to secure certain advantages for the organization over other organizations or competitors. This competitive advantage can take many forms: customer loyalty concerning goods or services; motivating staff/volunteers; prestige; recognition; good relations with suppliers, stakeholders, politicians, and so forth. Such things allow organizations to beef up their capabilities and create more social value and wealth. Many organizations try to create competitive advantage through

social initiatives that set them apart from rival firms or rival CSOs. Still, we can appreciate certain differences between CSOs and companies when it comes to creating sustainable competitive advantage.

Companies' social initiatives play a strategically important role in many of the cases studied, strengthening their links with stakeholders as a way of securing competitive advantage. A good example of this is furnished by Inditex, which grasped the need to improve the operational capabilities of its suppliers by improving the quality of life of the workers employed by them. To achieve this, Inditex promoted respect for human rights in its suppliers' factories and carried out social audits to check on implementation. The company has also carried out studies of the needs of its suppliers' workers in Tangiers (Morocco), and in Lima (Peru). The findings have been used as the basis for collaboration with local organizations providing basic community services. These centers provide nurseries, education, health, training, and legal aid to workers (and their families) employed by factories manufacturing for Inditex. This is a clear case of a company that combines the creation of social value with its strategic interest in strengthening its ties with suppliers.

Other companies try to strengthen relations with their staff and local communities, a policy that gives them a certain "license to operate" in exchange for creating jobs and improving living standards. This approach often produces improvements in work atmosphere, lowers sick leave and absenteeism, and results in a better safety record, greater local prestige, and ultimately a stronger competitive position. An example is Pantaleón (Guatemala), a company that has carried out programs for its workers and their families in education, health, housing, leisure, and sports since the 1970s, all of which has helped the firm to hold on to staff better than its competitors.

Some companies try to gain a competitive edge by strengthening their links with customers or a particular segment of clients. The Mexican multinational, Cemex, has established a program titled "Operation Sustainability" for its low-income customers. This includes "Patrimonio hoy," an initiative helping low-wage earners build their own homes; "Piso firme," dealing with dwellings with unhealthy earthen floors; "Congruencia" (dwellings for the handicapped); and "Construmex" (meeting the savings and building needs of Mexican immigrants in the United States).

Social programs can also be a source of competitive advantage for companies when good works enhance their reputation in society at large. The innovative Spanish courier company, MRW, is a good example of this. The firm has switched from conventional marketing to relational marketing

methods and provides a 68 percent discount to CSOs on packages sent within Spain and 20 percent on international dispatches. The big multinationals in the industry have been unable to dislodge MRW from its number one position in Spain, which is based on the firm's easy access, range of services, and social programs. Needless to say, the company capitalizes heavily on its social initiatives in its communication strategy. MRW has constantly strived to create social value over the last twelve years in order to achieve this competitive advantage: "MRW has spent over 1% of its gross turnover on social causes since 1993." The company is aware that its competitive advantage stems from supporting certain social causes and tries to enlist wider support for those causes: "Even if you do not directly benefit from such services, we trust you will make potential beneficiaries aware of what we have to offer."

In short, the competitive advantage gained by companies through social initiatives is often the product of strengthening relations with the firm's various stakeholders (suppliers, staff, customers, the public in general, and local communities). This advantage increases the company's organizational capabilities and hence its ability to create value. It can strengthen workers' commitment to the firm, improve the atmosphere at work, enhance relations with public administration, and make customers and suppliers more loyal. Therefore *it strengthens the links between the three sides of the strategic triangle* (see Figure 3.1), given that operational capabilities are enhanced through greater legitimacy and internal and external support, and through the clarification of the organization's proposals for creating value.

It may seem strange to apply these concepts to CSOs, but here too the creation of competitive advantage is a way of upgrading their operational capabilities. This is achieved through strengthening links with stakeholders and clarifying the value created by the firm. However, in CSOs' case, sources of competitive advantage include achieving greater independence, particularly with regard to funding.

In any case, some CSOs have used their social initiatives to improve their position vis-à-vis other organizations and/or companies. Although differentiation has not been a traditional concern among CSOs, this need is beginning to be felt in the United States and Europe, given the rapid increase in the number of social organizations. Whether CSOs like it or not, they are all competing for a relatively fixed amount of funds, a finite number of volunteers and the amount of attention society gives to any one social problem. Hence the need for CSOs to differentiate themselves. This trend will undoubtedly make itself felt in Latin America too. In our study

we found a successful case in Colsubsidio, a Colombian CSO that undertook social initiatives in competitive markets in 2005—specifically in the health, mass consumption, and housing fields. It competes, respectively, with health provider companies, supermarket chains, and construction businesses. Colsubsidio exploited its image as a CSO to maintain its competitive advantage in its social initiatives. As a result, the organization is now financially self-supporting while remaining true to its mission.

Lessons for Social Entrepreneurs

We have explained the importance of the strategic variable and the nature of strategic decisions in carrying out social initiatives following the dimensions of the strategic triangle (see Figure 3.1). Figure 3.2 emphasizes the importance of consistency and alignment of the various aspects of strategy to ensure the long-term success of social initiatives.

Fig 3.2
Strategy and Social Enterprise
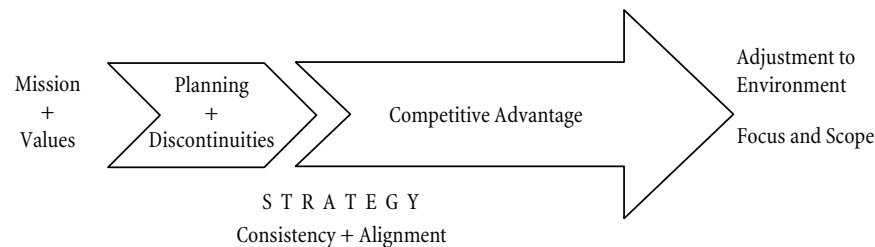
The figure shows values and the mission as the departure point for creating a strategy that achieves the greatest social impact for a given focus and scope. This strategy must be based on planning but remain open to emergent strategies. Strategy needs to ensure that initiatives fit in with the milieu from which they derive their legitimacy and support, and create competitive advantages which in turn strengthen the organization's operational capabilities. In this respect, the role of strategy is to ensure alignment between social initiatives and the organization as a whole.

These observations are as true for CSOs as they are for companies. In fact, we believe that the two kinds of organizations have a great deal to learn from each other regarding the best way to manage social initiatives and generate greater social value. They often face similar problems, so it is

worth reviewing how they solve them. Some points are listed below in the form of lessons or recommendations for social entrepreneurs.

- There must be **consistency** between the organization's mission and strategy, and **alignment** between strategic focus and organizational capabilities in order to maximize the success of social enterprise.

- A critical factor in CSOs is that their need for funding can lead them to lose their strategic focus. Some organizations have thrived by making fundamental shifts in their missions to adapt to changes in the settings in which they operate. The key to success in these cases was reflecting on the organization's raison d'être, remaining true to core values, and building up the capabilities needed to carry out the new strategic focus.

- In the case of companies, the mission sends messages to the whole organization and to society as a whole regarding the importance of the social aspect for the firm's business. Although there are examples of companies that have successfully carried out social initiatives without incorporating them into their business missions, failure to do so may undermine the long-term impact of such schemes (of course, we are not talking here about the necessity of writing it down in a mission statement, but of incorporating it to the operational mission).

- A **long-term vision** of the aims of social enterprise increases the chances of success. However, in companies there tends to be a dispersion of effort (particularly in the beginning) as the firm tries to satisfy immediate social demands. The organizations that are most successful at social enterprise are the ones that adopt a long-term view.

- **Strategic planning** reflects a long-term vision, but the fact that the company adopts it should not prevent it from formulating an emergent strategy when the need arises. Maintaining a dynamic, open relationship with its environment is vital for defining the organization's strategic focus. The company needs to be aware of the possibility of external crises and changes that may lead to changes in strategy. Internal forces can also lead to changes or to an evolution. However, problems usually arise from lack of planning rather than lack of flexibility.

- It is worthwhile **involving beneficiaries** in analyzing social problems and implementing solutions. The cases analyzed show that losing touch with beneficiaries or failing to define who represents them is a recipe for trouble further down the line.

- Creating a **sustainable competitive advantage** is an important strategic element for undertaking social initiatives and for reinforcing the firm's operational capabilities. Synergies between creating economic value and social value work to achieve greater competitive advantage. Another way of attaining this is to strengthen the company's links with suppliers, staff, and local communities. CSOs can achieve greater competitive advantages by diversifying their sources of funding or by creating innovative services for communities.

- It is important to define the **scope** of social enterprise in order not to diversify too far. CSOs ought to avoid adding activities that do not form part of their original mission. They may succumb to this temptation through over enthusiasm on the part of organization members or to get funds. Companies too need to give unity to the variety of social initiatives and to incorporate them in the corporate mission. Social aspects cannot be included in corporate strategy as a mere abstraction. Rather, the company must make its strategy operational if it is to implement its social initiatives. One way of doing this is to build a sense of mission among staff, who assume the need for social responsibility and actively participate in carrying it out.

Notes

1. Charles Handy, "The Search for Meaning: A Conversation with Charles Handy," *Leader to Leader* (Summer 1997), 20.

2. Gerry Johnson and Kevan Scholes, *Dirección estratégica* (Madrid: Prentice Hall, 2001).

3. H. Igor Ansoff, *Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion* (New York, NY: McGraw-Hill, 1965).

4. This part is based on Chapter 3, Alfred Vernis et al., *La gestión en las organizaciones no lucrativas* (Barcelona: Editorial Deusto, 1998).

5. Kenneth Andrews, *El concepto de estrategia en la empresa* (Pamplona: Ediciones Universidad de Navarra S.A., 1977), 59.

6. Mark H. Moore, "Managing for Value: Organizational Strategy in for-Profit, Nonprofit, and Governmental Organizations," *Nonprofit and Voluntary Sector*

Quarterly 29, no. 1 (2000); Mark Harrison Moore, *Creating Public Value: Strategic Management in Government* (Cambridge, Mass.: Harvard University Press, 1995).Using this model to analyze both corporate and public social initiatives of CSO and companies may cause some confusion given that Moore developed it for application to the public nonprofit sector.

7. Xavier Gimbert et al., *Cómo elaborar un plan estratégico en la empresa* (Madrid: Cinco Días-ESADE, 1999), Johnson and Scholes, *Dirección estratégica.*

8. John M. Bryson, "Strategic Planning," in *International Encyclopedia of Public Policy and Administration,* ed. Jay M. Shafritz (Boulder: Westview Press, 1998); Alfred Vernis et al., *Los retos en la gestión de las organizaciones no lucrativas* (Barcelona: Granica, 2004).

9. These concepts are taken up again in Chapter 10. Some of these ideas were also dealt with in the context of a study on alliances between companies and CSOs in a previous SEKN work. See Austin et al., *Social Partnering in Latin America: Lessons Drawn from Collaborations of Businesses and Civil Society Organizations.*

10. See the following chapter on Organizational Culture, and the foregoing chapter on Leadership, which examine these dimensions in greater depth.

11. R. Edward Freeman, *Strategic Management: A Stakeholder Approach* (Boston: Pitman, 1984).

12. This part is based on Daniel Arenas and Alfred Vernis, "Intégrer la responsabilité sociale dans la stratégie de l'enterprise," *Les Echos* (November 25, 2004).

13. See Charles Holliday, Stephan Schmidheiney, and Philip Watts, *Walking the Talk: The Business Case for Sustainable Development* (Sheffield: Greenleaf Publishing, 2002).

14. On this point, see the excellent article by Michael E. Porter and Mark R. Kramer, "Philanthropy's New Agenda: Creating Value," *Harvard Business Review* (November 1999).

15. Rosabeth Moss Kanter, "From Spare Change to Real Change: The Social Sector as Beta Site for Business Innovation," *Harvard Business Review* (1999).

16. Henry Mintzberg, Bruce Ahlstrand, and Joseph Lampel, *Safari a la estrategia* (Buenos Aires: Granica, 1999).

17. The classic school is represented by various theories, including Kenneth Richmond Andrews, *The Concept of Corporate Strategy*, rev. ed. (Homewood, Ill.: R. D. Irwin, 1980); Freeman, *Strategic Management: A Stakeholder Approach;* Bruce D. Henderson, *Henderson on Corporate Strategy* (Cambridge, MA: Abt Books, 1979); Peter Lorange, *Corporate Planning: An Executive Viewpoint* (Englewood Cliffs, N.J.: Prentice-Hall, 1980); Henry Mintzberg and James Brian Quinn, *The Strategy Process: Concepts, Contexts, Cases,* 2nd ed. (Englewood Cliffs, N.J.: Prentice Hall, 1991); Michael E. Porter, *The Competitive*

Advantage of Nations (New York, NY: Free Press, 1990); Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1985); Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York, NY: Free Press, 1980); James Brian Quinn, *Strategies for Change: Logical Incrementalism, Irwin Series in Management and the Behavioral Sciences* (Homewood, Ill.: R.D. Irwin, 1980). J.M Bryson is notable among those who have conceptualized this approach to the nonprofit sector: John M. Bryson, *Strategic Planning for Public and Non-profit Organizations: A Guide to Strengthening and Sustaining Organizational Achievement,* 1st ed. (San Francisco, CA: Jossey-Bass, 1988). To understand the differences between the schools of thought, see Bryson, "Strategic Planning"; Mintzberg, Ahlstrand, and Lampel, *Safari a la estrategia.*

18. See Henry Mintzberg, "Crafting Strategy," *Harvard Business Review* (July-August 1987).

19. To understand the various models used in this approach to strategy, see Bryson, "Strategic Planning"; Mintzberg, Ahlstrand, and Lampel, *Safari a la estrategia.*

20. This corroborates Hart's statement: "high performance companies seem capable of harmonising different frameworks in formulating strategy. They are both planners and incrementalists, managers and participants, able to control and to delegate, and to create a vision and to pay attention to details" S. L. Hart, "Intentionality and Autonomy in Strategy-Making Process: Modes, Archetypes, and Firm Performance," *Advances in Strategic Management* 7 (1991) 121.

4

Organizational Culture in Social Enterprise

Culture is a key element for understanding the performance of any kind of organization. It manifests itself in the behavioral patterns[1] that people follow in the workplace, both in carrying out their functions and in establishing relations. Organizational culture surfaces, for instance, in the interrelation of superiors and subordinates. Similarly, an analysis of the relations of the organization with the external environment—its articulations with other institutions, the way in which it serves the public and relates to authorities and government bodies—allows one to infer the prevailing cultural patterns and their influence on organizational performance.

Given the importance of culture for understanding organizational performance, it follows that we try to identify the cultural patterns that stand out in the social enterprises under study and how they show up in the different spheres of the institution's life.

We define the culture of social enterprise as the set of behavioral patterns of behavior and performance, which are visible in various dimensions of organizational activity. These patterns were developed by the organization's members for the purpose of dealing with internal integration and external adaptation problems, and they function sufficiently well to be considered valid and to be taught to new members as the right way of perceiving, thinking, and acting in these situations.[2] Recognizing these cultural patterns and understanding how they manifest themselves will enable us to put forth queries and suggestions regarding organizational management, in order to optimize the creation of social and economic value amongst social initiatives.

Hence we will map and analyze the dominant cultural standards of our organizations to understand how they work and to gauge their capacity to influence, either positively or negatively, the attainment of objectives and results expected. This work of identifying patterns is required because some of the manifestations of organizational culture are not self-evident. Most of them are built into intangibles such as people's "view of the world" and the values that justify the "style" of management practices, in

addition to certain assumptions that, whether explicit or implicit, are determining guidelines for how the organization operates.

Our analysis is based on the assumption that culture is shaped by the interaction of the internal and external milieus. Culture, in turn, influences the workings of the organization's systems and processes, in an ongoing cycle of mutual reinforcement. By identifying these cultural patterns and how they express themselves in this cycle, one may find answers to questions such as:

- Which organizational culture dimensions have a greater impact on the performance of social enterprise?
- How do the cultural patterns that are predominant in these dimensions manifest themselves?
- What are the possible comparisons between the cultural patterns of social enterprises conducted by companies and those of CSOs?
- Which cultural patterns can be managed and may help to optimize social enterprise performance?

Such questions call for the adoption of a methodological model that will serve as the basis for the analysis of the dimensions in which the cultural patterns manifest themselves and can be identified. It is a way to classify observable data, so as to map and to analyze these manifestations.

The analysis of the data focused on four dimensions that stood out for having the greatest influence on the performance of social enterprises conducted by CSOs and companies. For each dimension, the analysis also seeks to outline the main directives that can guide the management of these manifest cultural patterns. In the final segment of the chapter, we systematize conclusions on possible comparisons between prevailing cultural patterns in both types of social enterprises, and on the possibilities and limitations of managing these organizational cultures.

Conceptual Bases for Organizational Cultural Analysis

To be able to manage the cultural patterns of organizations, one must identify and understand them. Some are more visible than others and can be interpreted easily, such as the formal structure of the hierarchy, the systems and processes that organize the work, and the dress and language codes adopted in certain professions. Yet many less visible cultural traits strongly influence the organizational performance, such as styles of leadership, types of interpersonal and group relationships, values underlying decisions, and criteria for distributing power.[3] As the most visible cultural

patterns coexist with the less evident ones, it can be difficult for the observer to tell them apart and especially to identify the influence of each on the consolidation, social and economic sustainability, and performance of the undertakings and organizations.

This multidimensional model for analyzing organizational culture is based on a "contextualist" approach often used in the diagnosis of the cultural patterns of complex organizations, mainly those whose purpose is to provide input for redefining strategies and management models and support for the introduction of technical, technological, and administrative innovations.[4] That approach derives from the corroboration that one of the critical success factors that must be carefully managed in the processes of large-scale organizational transformation is the resistance generated and fuelled by the predominant culture. When the changes in the contexts in which social enterprises are inserted are profound, these situations have often constituted a management challenge.

These transformation processes require that people accept change. They also require building individual and group commitment to the objectives and targets that are essential for implementing the innovations. Changes in the prevalent cultural patterns must take place before a coherent management model may develop.

Figure 4.1 shows the organizational dimensions in which the cultural patterns manifest themselves. The most obvious and easiest to grasp are those in the external circle. The patterns whose manifestations are less visible are located, gradually, in the inner circles.[5]

Thus an analysis of the mission, strategies, and policies explicitly set out in manuals, reports, and documents will easily identify the cultural patterns that the organization expresses and wants to see embodied in its institutional image. On a more internal level, however, when one observes the day-to-day managerial processes, one can see that the formal norms and policies and the concrete practices do not necessarily coincide. An even deeper probe can show differences and similarities in the distribution of formal power, as defined in the organizational structure and charter, versus informal power, based on interpersonal relations and spontaneous social networks. Although the latter are not recognized in the organization's design, they may assume essential functions for the organization's performance.

It is important for leaders of social enterprises to learn to identify the cultural patterns that predominate across these many dimensions. Sensitivity in understanding cultural patterns is an essential requirement for

Figure 4.1
Methodological Model:
Levels and Dimensions of Organizational Culture
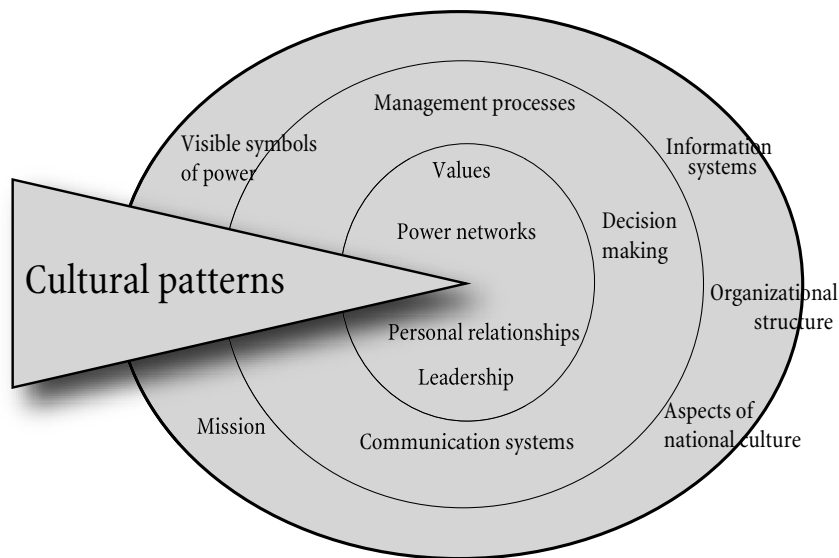
managing both the obvious characteristics and those that run deeper but that likewise influence the performance of the organization.

Most Influential Cultural Dimensions in Social Enterprises

The social undertakings conducted both by companies and CSOs are based on values that constitute their ideological foundations. Their management, communication, and decision-making processes reflect this vision; they are guided by strategies that are consistent with their ideas of how society is—and should be—structured, how social development should take place, and what role entrepreneurship should play in the process.

The social enterprises we studied revealed the following value-forming agents, which helped to consolidate the cultural patterns prevailing in other dimensions of the organization's culture:

• In social enterprises conducted by companies, the principal generating impulse comes from the external milieu and is the determining factor for the manager in making the decision to undertake a social welfare initiative.

- Social enterprises conducted by CSOs are born mainly of values of a religious, philosophical, political, and ideological nature, which are strongly linked to the social cause targeted by the undertaking.

- In both types of undertakings, the characteristics of society at large and even of the national culture influence the formation and consolidation of the organization's specific cultural patterns.

Most of the cases tended to highlight the need to preserve natural resources, regardless of whether the firm was an environmental CSO or a corporate institute investing in social welfare. This is possibly explained by the worldwide prevalence of this theme—especially after Eco '92[6] as well as by the establishment of environmental legislation in several countries; the subject of the environment has reached the status of a global problem affecting all of mankind, as international debates and the promulgation of the Kyoto Protocol have made clear.

Another tendency we observed, especially among Latin American cultures, is that social undertakings are progressively choosing collaborative forms of work, breaking away from the previously dominant cultural pattern of maintaining an isolated position vis-à-vis other social actors. Partnerships and alliances between sectors have brought together organizations that in the recent past were highly resistant to such links. The factors that perhaps explain this cultural change are the scarcity of funds, limited public policy responses to the challenges of social development, and the perception of private organizations—whether they are for profit or not—of the limitations of the actions and results of isolated social investments.

These generic facts indicate that the mapping and cultural interpretation of the current cultural patterns of social enterprises might allow one to identify the characteristics shared by these organizations, which would lead to a sort of framework that is typical of them. Similarly, this would enable researchers to find out what are the specific characteristics that differentiate the undertakings relative to one another and the influence of this specificity on organizational performance.

Of all the dimensions shown in Figure 4.1, we identified four that showed significant manifestations of cultural patterns having an influence on the performance of both types of social enterprises:

- **Management processes,** which show the predominant patterns of interpersonal relations and the ways in which work is structured.

- **The exercise of leadership,** whose predominant styles indicate the underpinnings of authority.
- **Communication systems,** where one identifies patterns of greater or lesser transparency in the relations.
- **Decision-making processes,** which indicate the underlying criteria of the distribution of formal and of informal power.

Figure 4.2 below summarizes these initial considerations, indicating the main agents that form organizational culture in social enterprises and the dimensions in which culture becomes more visible.

Figure 4.2
Main Dimensions of Organizational Culture in Social Enterprise
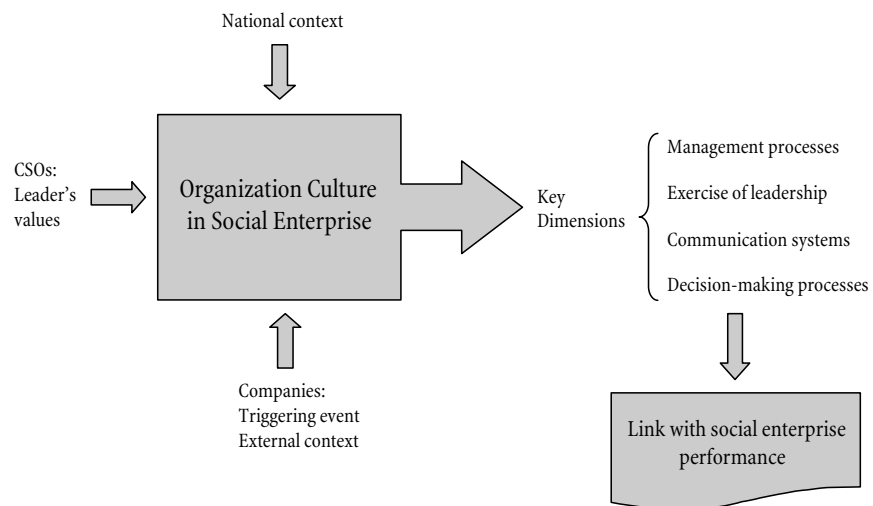
The Culture of Social Enterprise in Businesses

The cultural patterns found in the social enterprises of companies may be shaped by outside events that elicit a specific and limited reaction unrelated to corporate strategy and culture. Some of these generating factors are drastic, such as environmental accidents or accusations of irregularities that provoke public indignation. Others result from less dramatic circumstances in which entrepreneurs and executives absorb the discomfort of unsustainable social contradictions until they feel compelled to act and

identify, in the resources and fields of influence of the company, conditions for solving their problems. There are also countless cases of personal transformative experiences—material and emotional losses, diseases, family crises, or insights—which lead the managers to bring social action to bear on the company's orientation.

Organized demonstrations by the communities in the organization's neighborhood and internal mobilization demanding action of some kind are, in some cases, the critical incidents that spur corporate change of conduct vis-à-vis social issues.

Samarco, a Brazilian company, was building a dam in the town of Bento Rodrigues in order to use the water in its production. A small neighboring community expressed great concern about the risk of accidents and even danger to its survival. Aware of this discomfort, the company defined a corporate social responsibility (CSR) strategy involving intensive work with the local population to assure them of the safety of the dam's operation. The establishment of a closer relationship with the inhabitants enabled the company to discover, later, that it could help strengthen the local community if it undertook social activities of a more integrative nature and became open to community participation.

In Peru, research conducted in 2002 to evaluate the reaction of people living near the plant of Cementos Lima to that cement producer revealed issues of dissatisfaction that gave rise to concern. The financial manager at the time concluded, "The results reflect perceptions that the company does not promote healthy environmental and social actions and even that it is degrading the local environment." In the light of these results, the company tried to find ways of modifying this negative view, which was due largely to the community's ignorance of already implemented, but undivulged, preventive measures.

Miguel Fernández, head of operations of the Pantaleón Company—Guatemala's largest sugar producer and exporter—was surprised when, in 1976, workers blocked the entrance and stopped plant operations. Two years earlier, the company had initiated a broad internal restructuring program centered solely on productivity. The protest forced the firm to review this project, incorporating into it a re-evaluation of its relations with the community and establishing avenues of corporate social responsibility. Nowadays, the executive board admits that the company will be unable to consolidate its growth and market leadership if it does not develop a culture of social responsibility.

The need for companies to react promptly to the pressure that comes from the outside initially drives an early integration of the implemented

social operation and organizational culture. The learning process that ensues from these initial corporate reactions encourages a transition from reaction to action, better aligned with the firm's culture and often increasingly integrated with its business strategy.

If this maturation process persists, social action becomes a corporate strategy, amalgamating social responsibility and organizational culture in several spheres, even those unrelated to the objective of promoting sustainable social development. During the course of this evolution, we observe a gradual transformation of certain cultural patterns, which seem to adapt, little by little, to the new experiences and to the organizational development fostered by the implementation of social strategies.

Such adaptation is exemplified by the Compañia Minera Antamina (CMA), a Peruvian company. The evolution of its corporate social responsibility actions went hand in hand with the three implementation phases of the company's business: exploration, construction, and operation. In the exploration phase, the operating aspects directly connected with the business had top priority in the decision-making process, so the company only reacted to social and environmental issues. At the other end, during the operation phase, a more consolidated view of corporate social responsibility was integrated with the business strategies, in which the adopted processes matured. This resulted in a reduction of the conflicts inherited from the past and in the construction of friendly and mutually advantageous relations with the community.

At Samarco during the 1980s, the learning process fostered by the Bento Rodrigues episode and the need to meet the prerequisites of a normative system of environmental management led the company to review the responsibility component of its policies and procedures regarding its employees. These procedures consisted of opportunities and stimuli for professional and educational training, organizational climate, safety conditions and risk prevention. The fact that the company reformulated its human resources policies in order to absorb the standards of a culture of social responsibility encouraged employees to become personally involved with social actions benefiting the community through volunteering, a movement that was supported and encouraged by management.

The experience of Hocol, an oil producer headquartered in Colombia, is a further significant example of the involvement of a company with the community because of an organizational learning process. In one sector, Hocol, together with Surcolombiana University, created a Democracy School. At the same time, the company supported highly respected CSOs such as Transparency for Colombia and also some chambers of commerce.

Thus, by acting across several spheres with a consistency that reflects its main cultural standards, it has helped to establish an awareness of citizenship among the people of the communities within which it operates.

In summary, we may identify, in the social enterprises created by companies, a sequence of organizational learning phases that foster change or lead to the strengthening of certain cultural patterns:

- First, reaction and adaptation to external pressures and to the laws and regulations of environmental and social management;
- Followed by deeper understanding among stakeholders as to their rights and the problems that affect them.
- Subsequent formulation of the problems and of what is lacking in social terms by the management and the company's staff, and general encouragement for personnel involvement with social actions.
- Development of awareness of the synergy between social action strategies and corporate action and of the contradictions that may be found within management systems.

These phases appear to give rise to a virtuous circle in which the growing integration of business strategy with social action and the commitment of employees to the community more clearly strengthen and highlight the roles that business organizations can assume in fostering sustainable social development. As part of this process, the culture of social responsibility comes to permeate the business organization, encouraging a maximization of the level of integration between the economic and the social value of the undertaking. In other words, in companies that dedicate themselves to social enterprises, this learning process helps to consolidate the cultural standards of social responsibility in the spheres of management, the internal and external communication systems, the styles and methods of exercising leadership, and the decision-making processes.

The Influence of Cultural Patterns in Management Processes
Planning, implementation, evaluation, and control of social enterprises are all categorized as management processes. The same applies to technical and operational activities conducted individually or in connection with social organization networks as they work to achieve the results for which the undertakings were created.

The management of social enterprises, as conducted by companies, can be institutionalized through the establishment of foundations/institutes or

of an internal organizational structure created for this purpose. A predominant cultural pattern in these cases is to adopt management technologies in corporate social initiatives similar to those employed in the regular business practices, such as focus on results, a precise definition of projects, team professionalization, resource optimization, and financial and administrative controls.

Given that the nature of social work is different in various ways from business activities, using corporate models may not always be efficient. Disappointing results and conflicts about decisions are common. Thus, in these undertakings, one must encourage the development of an organizational culture geared towards constant interaction with the external environment, recognizing its main characteristics and encouraging alignment between management methods and the requirements and expectations detected in this interaction. The flexibility required for these interactions seems to lead to an ongoing improvement in social enterprises, and thus toward a result-oriented culture.

Indeed, the transference of concepts and ideas from business administration to the management of corporate social enterprise has contradictory aspects. On the one hand, the absorption of aspirations of "efficiency, efficacy and effectiveness" has a positive influence on the development of social projects and activities, by lending them expediency and better performance measurement. On the other hand, however, it can lead to undesirable effects and conflicts with the community's interests and needs, as the Samarco case illustrated, or by communication difficulties within the sphere of cross-sector alliances. Established procedures for conducting social programs may get in the way of adapting the structure and objectives of these programs to the specific requirements of the community served by them. This inability to adapt has at times led to poor results in several corporate social actions, revealing a need for greater flexibility. In the words of Sérgio Leite, Environment Manager of Samarco in charge of several social and environmental corporate programs: "The recipe consists of having no recipe."

In this case, management used the tools that are useful for operating programs, such as Pareto graphs and cause-and-effect diagrams. Community resistance was generated because the actions reflected the view the company had of the inhabitants' requirements, not the expectations and priority needs of the inhabitants themselves. Moreover, the standardization of these actions, typical of corporate work processes, clashed with local community practices, generating dissatisfaction and a perception of power imbalance in the community's relationship with the company.

In other cases, the influence of the external milieu inhibits prompt transference of corporate management technologies to social enterprise. Faced with the actions of guerrillas, drug dealers, and criminals that threaten the peace of Colombian entrepreneurs, Alpina—a food producer—chose to minimize the visibility of its social initiatives and to manage them with more sophisticated evaluation and control procedures. Its strategy has been to fragment social actions into several types of donations and sponsorships, gradually taking into account the interests of the different stakeholders and thus helping the process of adaptation of management methods to maturing social enterprises. In this case, strong outside influence appears to control the pace of adaptation to using corporate management techniques in social actions.

Elsewhere, greater flexibility in using management techniques materialized from the redefinition of the organizational structure for social action. At Cementos Lima, which has a corporate structure typical of the cement sector—similar to the sequential and rigid design of the production process—problems arose in the adaptation of business management techniques to social action. The administrative characteristics dominant in the sector's industrial organization lack the flexibility and pace required for efficient action upon social issues.

In 2003, Cementos Lima began solving its earlier problems. Using its own funds, the company created the Atocongo Association, whose mission is to "actively promote and participate in the execution of social, cultural and environmental preservation projects, through its own resources and strategic alliances with domestic and international organizations committed to social responsibility." Atocongo focuses strongly on educational projects, positioning itself as a proactive and strategic partner to communities and adopting clear criteria for analyzing new proposals. Through its association, the company has been changing its social responsibility behavior, cutting down on philanthropic work, and enhancing long-term projects and relations with better defined objectives. Increasingly, the company is evaluating projects and results achieved, conducting full community diagnoses, and establishing new social initiatives geared towards sustainable development. In other words, without jeopardizing its focus on results, Cementos Lima has managed to adapt the use of management techniques in its relations with the communities in which it operates.

Our research thus showed that a simple transference of corporate management methods and techniques to social enterprises, disregarding the differences in the cultural patterns that prevail in each type of organization, does not guarantee organizational development. We therefore recommend

that careful assessment of the specific organizational culture characteristics of these undertakings precede the adoption of good corporate management practices for optimizing the performance of social enterprises.

The Influence of Cultural Patterns Derived from Leadership
The cultural patterns evidenced in the exercise of leadership of the social enterprises conducted by companies favor the delegation of responsibilities and attributions, although the enterprises retain, in some cases, a significant influence from the founding leader. These types of social initiatives are conducted by corporate middle managers, with an emphasis on administrative methods for planning, implementation, and management control, actions being less influenced by personal characteristics, as observed in the social enterprises of CSOs.

For this reason the responsibility for the corporate social projects and actions is often diffuse, as it is at CANTV, a Venezuelan communications firm. Its social initiatives are handled by several managers, all of whom perform a range of guidance and management roles. This can lead to better dissemination of the cultural standards of social responsibility within a company, as practices are spread across many organizational arenas and several employees share leadership.

Such delegation of social initiatives to several managers in the organizations is effective when the work processes used to manage the company dovetail with the social actions procedures. To the extent that indicators are adopted for evaluating and tracking results and administrative methods are applied to planning, implementing, and controlling the activities—in a manner similar to that employed for managing the company's business—the exercise of decentralized leadership becomes more feasible.

Nevertheless, there are cases in which the corporate founder has a decisive influence on the establishment and consolidation of a culture of responsibility. At Alpina, a leading food company in Colombia, the values of social responsibility express the founders' views. Likewise, in the Orsa Group, a Brazilian enterprise in the pulp production sector, the leadership of Sérgio Amoroso—founder and largest shareholder—influences employees with his vision that social responsibility "is a dream to be jointly dreamed" and that it is, therefore, a dream that can come true, generating and distributing wealth to society as a whole. Alberto Albala, president of the Maver Laboratory in Chile, has a significant influence on Tapsin Foundation decisions. The Foundation does not exist independently from the Laboratory; it does not have its own offices, nor does it hire employees. Thus the company's and the Foundation's cultural standards

appear to be identical where recognizing the value of social responsibility is concerned.

Conversely, we have studied some cases in which the founder was not the determining factor for inserting a culture of responsibility into the corporate organization. The start of social action implementation within certain companies in the sample analyzed was troubled by suspicions regarding the opportunity, effectiveness, and appropriateness of the company getting involved with anything other than its strategic core activities. This was the case of Compañía Minera Antamina, where the first Institutional Relations Manager—a foreign employee who tried to apply vanguard views to the relationship with communities—was seen as naïve by other company executives. This situation changed when the shareholders started to supply more elaborate and consolidated views of the company's social function, disseminating a culture of social responsibility more consistently and under the aegis of the management.

The quest for strategic alignment between social and corporate actions appears to influence the set of ideas about the culture of responsibility. A good example is CANTV, where the management body tries to create a portfolio of social investments that combines projects of a philanthropic nature and other projects more closely linked with its business and organizational competences. In this sense, the evolution of Cemex's social action is a good example of the role of leadership in orienting strategic alignment and legitimating the effectiveness of the social actions undertaken. At first, the firm's social responsibility activities were philanthropic, reactive, and paternalistic, and failed to capitalize on the benefits generated. When Juan Romero became the CEO in 2000, however, he added continuity and strengthened the process initiated by Francisco Garza, his predecessor, in the development of a social intervention model capable of acquiring a global perspective—an aspect that already characterized the management of the business—as well as creating value to program beneficiaries and to the company itself.

The cases analyzed show that a culture of responsibility in companies that implement social actions seems to develop when their leaders endeavor to attain strategic alignment between social and business activities. This achievement is associated with the capacity for adapting management methods used in managing business to managing social enterprises.

The Influence of Cultural Patterns in Communication Systems

The cultural patterns associated with the delegation of authority and responsibilities relate to the design and management of the company's

communication systems. When social responsibility precepts are absorbed by the company's culture, they begin to emerge more often in its internal and external communication systems, as they become a distinguishing feature of the organization's identity. This process seems to prioritize the development of the internal, rather than external, communication.

The configuration of internal communication systems appears to have a significant influence on the absorption of a culture of social responsibility. The sense of social responsibility goes hand in hand with a clear and disseminated definition of targets and objectives, both for the company's production and business and for its social activities. This demands that the company establish management procedures characterized by results indicators that can make it easier for both its internal and external audiences to understand the corporate social objectives and targets attained.

An interesting example of insertion of a social responsibility culture is that of Cemex, the Mexican cement company and the largest subsidiary among the corporate industrial units in the Americas, Europe, Caribbean, Asia, and Africa. The company set up a structure of interdisciplinary committees, such as the Communication Committee (in which the vice-presidents take part), the Ethics Committee, and the Social Responsibility Committee. The company's CEO, Juan Romero, established the Communications Department and decided that it would be in charge of coordinating efforts. Cemex Mexico invested in internal communication in order to discuss the company's vision, which sought to incorporate social responsibility into the business. The explicitly stated communication that came from upper management was crucial for fostering the development of a common objective, with which the efforts of all of the company's areas and established committees aligned. The work of coordinating these endeavors encouraged the establishment of veritable networks of social communication, aligned with the company's strategic objectives. Luis Carranza, leader of the Social Responsibility Committee, commented on the Cemex committees' actions as follows:

> We were all working well, although in isolation; therefore, we felt that the efforts were like islands. He realized that our resources were being diluted, that more could be achieved if we joined forces. He also noticed that there was duplication, there was work being done that had already been done elsewhere. He considered that the best thing was to take part in a committee of which the people in charge of such areas could join in.

This example shows that the development of functional committees within companies can become an important mechanism for sharing and disseminating information and experiences, promoting the appearance and development of cultural patterns that provide a sound basis for the company's social responsibility strategy. The definition and consolidation of these patterns, however, is the fruit of a process of collective learning and maturation.

As for the external communication system, corporate organizations are likely to face internal resistance to divulging their social investments to a broader audience. Some managers fear that their intentions will be misinterpreted; others believe that such communication would clash with the organization's patterns of discretion. Some contend that excess visibility could lead to a level of demand for the company's social enterprises that might be impossible to meet. Such issues interfere directly with the processes of communication established with potential strategic allies in social initiatives and with the community's interlocutors.

A concrete example of these impacts can be seen in the Orsa Foundation, the social action branch of Orsa Group, a Brazilian manufacturer of pulp and paper. Since 2001, the Foundation has been active in the Brazilian Amazon region, upon the firm's acquisition of a pulp mill plus a large area of planted and native forests. Relying on its 10-year experience as social projects executor in the southeastern and mid-western regions of the country, where the Group's industrial facilities were situated, the Foundation underestimated the challenges and difficulties of establishing communications in this little known area. The local political leaders were used to a paternalistic relationship with companies, so they intended to relate to the Group on the basis of exchanging favors. The community leaders, for their part, were simply trying to obtain financial donations. Thus proposals for joint actions targeting local development were ignored, no matter how hard the Foundation tried to communicate its work philosophy and to attract social actors to share its objectives.

Much has been done to minimize the problems of internal and external communication in corporate social enterprises. When Cementos Lima created the Atocongo Association, it intended to separate the rationale that drove its production process—characterized by inflexibility and formal activities—from the rationale based on flexibility and community involvement that was needed for it to conduct its social work. This gave rise to a type of institutional communication different from the communication employed while the social actions were still connected with the company's organizational structure.

Institutional communication approaches also vary when the company runs social programs and projects in association with other organizations. Using a cross-sector alliance model that congregated company, government, and community since the phase of social project planning, the Hocol Foundation—the social action branch of the Hocol Company in Colombia—maintains a relationship with social groups by means of a communication system that mainly involves meetings and the exchange of newsletters. This encourages joint planning and development of its projects, always taking into account the context of each region. One of its corporate bulletins describes the evolution of community awareness development in the regions where the company operates, and the process of interaction between the social actors involved:

> The attitude of the community about its participation in social development projects has changed from demands for actions to co-management; the government bodies that took part in alliances for social action have become stronger, with acquired credibility and legitimacy, given the project's success; and Hocol was able to carry out its work and to reaffirm its trust in tri-sector alliances for social action as a suitable way of sharing life with the communities in the vicinity of its operating units.

Communication with the external audience also stands out in the Samarco case. The company holds annual meetings with the communities surrounding its facilities and encourages the participation of local social actors, such as the representatives of community associations, tradespeople, and the residents. At these meetings, it presents all the relevant data and facts on its social and environmental actions.

In both systems of communication—external and internal—clarity, adaptation for each type of audience, and organization of the information that is to be conveyed are key factors for the emergence of cultural patterns capable of positively influencing the performance of social enterprise.

The Influence of Cultural Patterns in Decision-Making Processes

The decision-making process in corporate social enterprise encounters conflicting tendencies to centralize and decentralize decisions. A single leader's centralizing decisions can become a major drive of a social undertaking, in that this leader plays a key role in the consolidation of an organizational culture committed to the social cause that justifies the undertaking. Decentralization, on the other hand, allows the company to come closer to the

challenges of social activity, making it more permeable to the circumstances and variables that influence the results of social actions and projects, strengthening the undertaking and making it long-lived.

From these initial reflections we may infer the existence of a balance between centralization and decentralization of the decision-making processes, which might promote the advantages of both in the management of social enterprise. Some of the cases studied show ways in which such a balance may be attained.

At the Arcor Foundation, the social action branch of the Arcor Group in Argentina, the decision-making process is decentralized in order to strengthen the autonomy and professional competence of each work team. The Foundation's social action focuses on educational programs for children and teenagers, and it always tries to establish and develop cross-sector alliances as a means for implementing them. In this case, the decision-making processes concerning program planning and detailing are decentralized; it is up to the owners of the company and their family members to provide final approval, once the teams have conducted a full study that also explored synergy possibilities between programs.

Orsa Foundation provides an example of the challenge of combining a strong entrepreneurial and centralizing leader—Sérgio Amoroso—with a corporate governance structure that follows a more organized delegation process in order to make the organization independent from the central figure. Amoroso is attracted to the concept of reinventing the corporate group and foundation management systems on the basis of the principles of ethics, evenhandedness, and transparency that characterize good governance. Such restructuring, however, clashes with his dynamic posture dedicated to the quest for new propositions. This contradiction generates obstacles for the effective functioning of the governance structures and procedures. Actions and decisions derived from the leader's entrepreneurial style are superimposed on the technical and managerial procedures adopted for the organizational development of the Group and the Orsa Foundation.

At Samarco, the main leaders conduct work processes based on teams with decision autonomy. New proposals come through the "Field of Ideas" program, a sort of suggestion box that generated 4,000 new ideas over five years, of which 1,200 were implemented. For the general manager of Human Resources, this program merely formalized a procedure that is typical of the company's culture, whereby people collaborate, provide suggestions and take part in decision-making. This has been automatically incorporated into the actions and decisions that focus on social initiatives.

This style of personal action resulted from the implementation of management systems with a clear identification of results tracking indicators (PDCA method—Plan, Do, Check, and Act). These indicators are not merely related to performance on the corporate activities level, but also to the relations established with all the stakeholders and to the methods defined for their social actions. In order to enhance the social responsibility culture, special attention was paid to assessing and analyzing indicators of the organizational climate among employees and thereby checking the key aspects of the organization's preponderant cultural patterns. Some of these indicators are turnover, rate of absenteeism, rate of contributions to internal suggestion systems, and the functioning of the so-called visible management systems, whereby panels spread across all plants allow one to see the main results achieved by the organization's business and social actions.

By sharing information openly and encouraging decentralized decision-making, the company hopes to strengthen its cultural responsibility standards. These patterns have been incorporated into social action through a process of organizational learning that stimulates the development of skills and committed attitudes among all participants.

The balance between different styles of leadership and decision-making approaches in social enterprise should follow a subtle flow, avoiding abrupt ruptures. In this way it is possible to manage organizational changes that reach deeply into the cultural patterns of the undertaking, without jeopardizing its survival, yet continuously perfecting its performance.

The Culture of Social Enterprise in CSOs

The cultural patterns of CSO social enterprise are based on values: whether religious ones, as those of the Fé y Alegria organization throughout many regions of Latin America; or values of political philosophy such as those of the Abrinq Foundation (defense of civil rights of children and teen-agers); or technical and technological values as those of the Asociación Chilena de Seguridad (occupational accidents); or those of Profamilia (dissemination of family planning and reproductive health). Social enterprise is often triggered by indignation in the face of social injustice, as well as mobilization around a set of ideas or shared worldviews. That explains the origin and continuation of the social enterprises launched from the third sector.

During the course of their development, certain cultural patterns solidify and configure the organizational identity, whereas others pale or are transfigured, according to the critical incidents that drive organizational changes.

IDEC, the Brazilian Institute for the Defense of Consumer Rights, was established in the 1980s. At that time civil society mobilized to strengthen the country's re-democratization. The Institute was founded at the end of that decade, following the implementation of the new Federal Constitution, which reflected significant advances regarding the protection of citizens' rights. IDEC was a pioneer in taking action to confront the market interests of privately owned companies in the business of production and the direct sale of goods for end consumers. It also went against political interests of state-owned companies and bodies in providing services for the population. This pioneering behavior laid a sound ideological and political base among its employees and collaborators who individually identified with the shared values and defended social causes—an attitude that strengthened the organizational values and mission.

These shared values worked as strong cohesive elements for the internal groups when IDEC had to restructure its operations in order to find alternative sources of sustainability. Shared values also allowed the institution to eliminate obstacles and resistance during changes in the work processes undertaken to cut costs and serve new needs. Although these situations naturally give rise to conflicts, people's strong identification with IDEC's values and purposes and their cohesive relationships have allowed them to overcome these difficulties, keeping the institution's organizational and institutional development safe.

It is not unusual to observe, in the course of evolution of CSOs, that initially absent ideological characteristics emerged later on. That may result either from the expansion or redefinition of social enterprise activities, or because external context changes have called for the CSO's mission to be reviewed. Examples that illustrate this include the experience of Colsubsidio, set up in 1957 with strong inspiration of Roman Catholic social doctrine, but eventually influenced by the need to adhere to the Colombian financial laws and regulations, as well as having to get along with the country's political flow. Another example is Profamilia, also a Colombian undertaking, which started offering fertility treatment for couples as a means of adjusting to changes in the law and to ensure its sustainability, even though at first sight this type of activity clashes with the precepts of its original mission centered on family planning. Yet this was a way of making use of Profamilia's available organizational competences while adapting to external changes.

Contrary to what one might assume, the original values of these social undertakings did not negate the organization's adaptation to new contexts and challenges. Values appear to contribute strongly to CSOs' survival,

encouraging them to maintain efficient performance in the long run through managing and communicating organizational changes. A constant feature in these cases was that leadership fostered broad participation in the processes where strategic decisions were made. Participation, in turn, spurred organization learning, configuring a cultural pattern that is essential for ongoing improvement.

The Influence of Cultural Patterns in Management Processes
Management of social undertakings conducted by CSOs reveals two predominant cultural patterns: informality in day-to-day operations, and active participation in social organization networks. Both reflect an understanding that overly rigid management structures are inappropriate for the type of organization with which people identify by virtue of the shared ideas and values that are inherent to the cause to which they are dedicated.

Company management attempts to reconcile the benefits that ensue from the cultural diversity of its work and from the informality in the relations between people with the need to ensure satisfactory levels of organizational performance and the very sustainability of the undertaking. Hence, it is important for management to be attuned to the possibility of confrontation between cultural patterns and to foster the integration of opinions and expectations oriented towards a culture of effectiveness. Some of the crucial elements for attaining this objective are strategic administration practices, participative planning processes, investments in education and training, and, above all, building an internal climate of trust and commitment to results.

In the cases we studied, there was a cultural pattern of informality in the handling of budget and financial controls, and little planning and evaluation, a function often seen as important but immature by the organizations themselves. Besides informality, another recurrent pattern was at play, namely, putting the activities associated with the cause ahead of support activities. These latter do not engage the time and energy of many people and are regarded as less gratifying than the former. Many diverse undertakings have reported being contacted by individuals interested in volunteer or salaried work directly with the target population, whether through field work or a specific project activity, but these potential workers do not want to get involved in administrative and management tasks. Clearly, then, CSOs need to invest in awareness and training programs in order to provide all employees or collaborators with a systemic and integrated view of the social enterprises with which they want to be involved.

Once people understand the whole picture, they can appreciate activities that are a means to the end as well as the actual end-activities, all of which are necessary for good performance.

External pressures have brought home to the CSOs the need to improve their administrative controls and focus their performance on measurable results. Those pressures brought about changes in the cultural pattern of informality of most CSOs, and highlighted the importance of measuring performance more accurately. The Fundación Comunitaria Oaxaca (Oaxaca Community Foundation), for example, initiated a process for evaluating projects and programs that identifies three levels of impact: individual/family, organizational, and social. The Foundation uses tangible and intangible indicators for tracking results. In consequence, the formalization of the management processes has increased and the patterns of behavior, relationship, and performance have changed.

Another indication of the improvement in administrative controls among CSOs can be seen in Colsubsidio, which operates in the Colombian social security sector. In this organization, we also saw that formal administrative controls, time charts, and plans with targets and objectives have gradually become accepted and valued as managerial tools. What one sees in these cases is a new cultural pattern, in that work and management processes previously considered inappropriate end up being absorbed through daily practice and incorporated into the organizational culture. At Colsubsidio, quarterly tracking of indicator targets and the publication of the results on the intranet ceased to be regarded as invasive and overly controlling methods and acquired the connotations of transparency and information sharing.

The initial implementation of results indicators in the two aforementioned organizations—even though it did not reflect unanimous internal opinion—was a key factor for perfecting the management processes and achieving better organizational performances. Measuring results produced better systematization of meetings and gatherings of the collaborators and thus confirmed the benefits of greater formalization of interpersonal relations. This spurred better activity planning, encouraged the commitment of the workforce to implement the planned actions, and conferred positive dynamics toward improvement.

Likewise, the active participation of CSO social enterprises in networks of organizations seems to generate significant improvement in management processes. An increase in community participation tends to strengthen the interaction between groups of social actors, consolidating the formation of organized and active social capital. An example of this

process can be seen in the GOB Menorca organization, in Spain. There, more than 2 percent of the population of the island of Minorca contributes donations and volunteer work for the cause of the conservation and protection of the environment and sustainable development. This level of community participation exceeds those achieved by similar organizations in Spain, conferring upon GOB a high growth potential for its dynamism and social impact. In this instance, organizational learning takes place within a context of sociocultural transformations that simultaneously benefit the organization and its cause, the community, and the members of the network.

The benefits and challenges inherent to the operation of CSO networks are clearly exemplified by Corrente Viva—a network of 30 Brazilian CSOs dedicated to community work in their respective localities. Focusing on strengthening the participating organizations, the network is guided by the principle of "sharing responsibilities to multiply results." Member training in planning and project preparation techniques is coupled with the strengthening of external alliances with institutions from the private sector, government, and the third sector. These advantages balance the new challenges inherent in taking part in the network, in that participation can clash with the busy daily work of the organizations and impinge on their scant material and human resources. It is the so-called dual loyalty dilemma, in which the requirements of the network and of the CSOs compete for the toil and dedication of the people who work in them.

Adopting strategic management tools is an important way of managing conflicts of this nature. Corrente Viva developed a so-called Participative and Integrated Strategic Plan whose methodology consists of identifying the internal and external needs of each of the network's organizations to provide input for a joint action plan. The planning phases built the managers' awareness of the frailties and potentialities of their organizations, giving rise to group work on themes of common interest. The voluntary participation of representatives of several CSOs in these work fronts enabled the development of a systemic and integrated network view. With organizational learning came the reconciliation of the common and individual interests of each CSO as well. One can thus observe a simultaneous change in the cultural patterns and in the management practices and processes of the network, as well as in each of its member social enterprises.

When we analyze the procedures employed for managing people in these undertakings, the cultural patterns that stand out highlight values such as solidarity, ethics, trust, and mobilization for action. The adoption of policies and practices structured for personnel management is often

regarded as unnecessary in CSOs, notably regarding the practices and policies whose objective is to control people's work. This cultural trait is supported by the belief that people share the organization's ideals and therefore will do their work with commitment, quality, and efficiency. To implement management methods for their work, therefore, would be not only superfluous, but actually detrimental to the workers' morale.

Nevertheless, the institutional maturing process that social enterprises experience during their life cycle has led them to realize that structured human resources management would help to align their strategies and personnel development. Getting personnel to align itself with strategy could increase the value added to the institution by mobilizing people's personal and professional competences. Occasionally, this results from changes in cultural patterns, which may begin focusing more heavily on efficiency, efficacy, and the quality of organizational performance. At other times, external factors are the trigger, by interfering with the values and beliefs on which the enterprises were constructed.

The absence of personnel management policies and the presence of a culture of informality in day-to-day personal contacts and work relations based on personal proximity are still common in CSOs. Yet this pattern coexists with personnel management processes more typical of the corporate sector, such as procedures for obtaining, developing, and recognizing the value of people, as is the case of Colsubsidio. In this organization, there are formal selection procedures for all positions, besides a methodic recruiting process for the managerial levels.

Cultural patterns characterized by a greater fluidity of interpersonal relations and a spirit of mutual aid found in social enterprises may be a distinguishing feature that enhances the organization's capacity for attaining its targeted results. The spirit of mutual aid is the outstanding feature of the Acosama Foundation. This NGO involves the community in the solution of the social problems it faces, which concern supplying water to the local population. The Foundation started disseminating what it learned by tackling this issue to other social actors, encouraging them to develop the social capital in other communities. Interpersonal relations resulting from this dissemination have turned into fundamental elements for its organizational performance.

Thus, on the whole, an intense and obstinate effort to professionalize management is not recommended, as it provokes an inevitable change in the cultural patterns that govern interpersonal relations. Rather, more formal management procedures could be introduced as a means of channeling people's efforts and attitudes towards attaining the desired

performance—to recover, in this way, the commitment to the social cause that has driven the establishment of the organization and attracted employees and other collaborators. Participative processes for modeling and implementing personnel management practices and policies can be used as channels for the expression and maintenance of the organization's values, besides offering an opportunity for reflection on the cultural patterns currently in force, sensitizing people to the required changes.

Modeling a profile of managerial competences through workshops has enabled IDEC to define priorities for personnel development, as well as policies and management processes that align individual needs with organizational strategy. Moreover, the choice of participative methods has made the group sensitive to the process of institutional development under way in the organization, signaling to its professionals the importance of their commitment and contribution towards the success of the changes being implemented in the organization.

Individuals' motivation to act is also a factor to care for and conserve when the organization introduces improvements in management. It essentially concerns individual commitment to the social cause. At the Abrinq Foundation, this means defending children's rights. At the Crear Vale la Pena Foundation, it is the appreciation of art as a transforming power that can help build identity and citizenship. At CDI, it is the belief that digital inclusion is an effective means for developing citizenship in underprivileged communities. And at IDEC, a Brazilian organization, mobilization in favor of consumer rights in a huge country continues to be a strong motivational agent for the team, even in the light of the organizational transformation process that the Institute is undergoing. IDEC exemplifies the attempt to balance the advantages of its work team's commitment to the cause with the need for professionalizing management. Two lines of action were put in place:

- An organizational restructuring, separating the executive functions from the functions that concern institutional development; and

- Preparation and participative implementation of a business plan centered on the Institute's sustainability through the generation of its own products for its associates.

It is important to note that IDEC's founder, Marilena Lazzarini, transferred the execution and implementation of the plan to a professional with managerial profile, thus effecting a redistribution of power and responsibilities.

The Human Resources management policies adopted by the organizations we studied are diverse. Some organizations try to recruit people whose competences would suit organizational performance—such as Codesser and Colsubsidio. Others, such as the Oaxaca Community Foundation, prioritize criteria that are not always explicit, and that relate to using people from the local community. Additionally, there are organizations that emphasize "learning by doing," as is the case of the Instituto Nacional de Biodiversidad (National Biodiversity Institute), whereas other companies favor processes of development, remuneration, and career that are similar to those used by corporations.

The analysis of personnel management policies and practices can greatly enhance our understanding of organizational culture. The social enterprises studied show a dramatic cultural change in this domain, with informality gradually being abandoned and more professional management techniques being brought in.

The Influence of Cultural Patterns Derived from Leadership

The cultural patterns of informality and participation in networks that predominate in CSO's management processes may derive from the characteristics of those organizations' leadership.

The nature of CSOs' activities contributes to establishing a relationship between the leader and his employees based on admiration and respect for his competence. The organizational culture thus formed is strongly governed by the essential values that are linked to the cause defended by the institution. The leaders are oriented towards social action and do not always have the knowledge, skills, and experience for management and administration. Consequently they reinforce a culture that values action in the organization's end purpose, to the detriment of managerial skills and organizational/institutional development.

Some exceptions to this tendency have been seen in CSOs whose leaders come from the private sector. In the Abrinq Foundation in São Paulo, Brazil, the founders were experienced businesspersons who set up a relationship network because of their wish to exercise a political role in the national scene, after the sterility of the military dictatorship years. Despite their initial motivation that leaned towards social action, the culture of this organization was molded around valuing business standards of management that reflected the characteristics of the founders' personal experiences. The influence of Profamilia's founder, Fernando Tamayo, created work conditions and management procedures that were similar to those used in the companies in which he had developed his network of relationships and his

professional experience. The members of the organization acknowledge the business standards of management as one of the reasons for the success of Profamilia, both regarding its sustainability and its social mission.

The predominance of a culture that is strongly rooted in the values defended by the CSOs and directed to action exercised a significant influence on the initial impulse of the social enterprises studied. Rodrigo Gámez, leader of the National Biodiversity Institute of Costa Rica (INBio), with his background as a scientist and his privileged insertion in the scientific world, contributed significantly to an understanding of the complexity of the country's biodiversity. He made the Institute effective on the national scene, modeled and introduced cultural patterns of respect for nature to his employees, and placed his personal credibility at the service of raising the funds that would guarantee the organization's survival.

Our research showed that cultural patterns do not seem to be sufficient for sustaining social enterprises when these are faced with the challenges that are intrinsic to the growth of the entity and/or to events such as succession, where weaknesses are exposed and a re-creation of the undertakings is sometimes demanded. These challenges are often confronted through the recourse to a more bureaucratic or systematic approach to management, a change that inevitably will create tension within the organization. Those transitions can be more or less problematic, but they always alter the cultural patterns that had predominated until then.

Examples of these problems can be seen in IDEC and Corrente Viva, where perception of the need for structuring the undertaking and employing systematic management procedures arises only when the organizations face the challenge for growth. This is when the nontransferable function of the leader becomes evident, as he seeks support and pushes through the necessary transformation processes. The organizational culture inspired by his own leadership changes to one that employs participative methods for implementing change.

Another case that illustrates the insufficiency of the charismatic leader when it comes to bringing about the sustainable performance of a CSO is that of the Hogar de Cristo Catholic Educational Association from Peru. This CSO promotes educational assistance and dwellings for maltreated children or those who are physically handicapped, for marginalized adolescents, for abandoned people, and for those with a terminal illness. It started in 1996, and Padre Martín Sánchez was named to head it. His charismatic leadership style allowed him to captivate the majority of his associates and volunteers, and he managed to maintain the internal cohesion and motivation necessary to face the difficulties and challenges of

setting up and maintaining the organization. Paradoxically, the virtues of this style of leadership were offset by some of the negative effects it had on the entity's performance. In principle, ignorance of the basic tools of administration, concentration of functions, and the centralizing character of decision-making would tend to decrease the efficiency of Hogar de Cristo's administrative management over the long term.

Therefore, if a process of cultural transformation featuring systematic management processes and developing cultural patterns that are characteristic of participative methods is not introduced into the organization, the importance of the leaders for their organizations may generate a dependency relationship that will restrict their development. This brings frequent problems of succession, as in the Oaxaca Community Foundation, in which, after the past seven years' presidency by a representative from the third sector, some of the social leaders are questioning the current leadership of businesspersons and lawyers. In Colsubsidio, profound management changes took place when, after 27 years, its founder, Roberto Arias Pérez, was replaced in the leading position by Maria Teresa Forero de Saade, who remained for five years until she ceded her post to Luis Carlos Arango. During this succession process the management model previously centered on the person of the leader, Arias—a controller and details man—went through countless difficulties until a decentralized participative management was introduced. It is interesting to note that the initial phase of Colsubsidio, under the influence of Arias, was fundamental for the success of the organization, although another contradiction had arisen between the personal values of the founding leader and the cultural patterns demanded, which had arisen out of the evolutionary process of the organization.

These dependency relationships may be minimized to the extent that the founders are prepared to make an effort to share not only values and ideals, but also attributions and responsibilities with their members. In the Abrinq Foundation, the importance attributed to the cause of deprived children and adolescents reinforced the legitimacy of the organization for its employees as well as for the various strategic partners spread throughout Brazil, thereby underlining the importance of the institution rather than the leadership. In the same way, the values associated with the formation of social networks that were developed and perfected in the Corrente Viva organization contribute to guaranteeing its strength as an institution. In IDEC, the founders have been systematically investing in management training for the team, in order to decentralize management and prepare successors, thereby ensuring the continuity of the undertaking.

In these types of social organization we observe a significant potential for positive reinforcement between the personal influence of the leader and that of management procedures that have been adapted to fit their realities. The leader then has to use his initiative to find an appropriate way of reconciling his own influence with the benefits accruing to the organization from adopting more structured management methods.

The Influence of Cultural Patterns in Communication Systems

The cultural patterns associated with the communication systems in CSOs acquire relevance to the extent that they have a direct influence on the institution's image in the outside world, and inside, the influence the sharing of values, attributions, and responsibilities of the leader with his employees.

The studies carried out show that the communication systems used emphasize external publicity, with the aim of enhancing fundraising to ensure the organization's sustainability. In the Crear Vale la Pena Foundation, the great communication skill of its founder and leader, Inês Sanguinetti, stands out. She has shown she has an excellent relationship with several media and the skills to deal naturally with different types of audiences.

Cultural patterns relating to information transparency seem to permeate internal communication initiatives, as is the case with Colsubsidio, in which internal communication procedures are integrated into a process of culture change in the organization and directly related to improving results. Similarly, the Codesser organization seeks to communicate the institution's main values to employees and volunteers. Of particular note are initiatives like the open correspondence between the executive officer and the other professionals, as well as periodic meetings that encourage local teams and the central administration to get to know each other.

The process for transmitting and sharing the institution's values with the stakeholders involves issues of interpersonal relationships, which require specific skills and behavioral attitudes of the managers. In the FCO (Oaxaca Community Foundation) there are cultural discrepancies in differences of expression and language, so problems of communication arise between national and local executives and between executives and other business foundations, in addition to problems of interaction between the private sector and CSOs. Meanwhile, FCO has sought to improve its communication with government, social leaders, and business and academic directors by participating in and articulating networks that can lead to a more open and consistent interaction between the various social stakeholders.

The growth of CDI, whose main objective is to allow low-income citizens to gain access to Information Technology, was accompanied by the development of mechanisms to transmit and reaffirm the organization's values. In this way, despite the geographic dispersion of its units that are to be found in all Brazilian states and in some countries abroad, no barriers were created against the maintenance of its culture and ideals. Periodic meetings between the managers and virtual forums guarantee this value-sharing, with the advantage that they allow decisions and changes to be suitably communicated in a way that mobilizes and involves the scores of regional coordinators who then replicate the undertaking in their own particular localities.

The Abrinq Foundation not only values internal and external communication, but also, through use of various media, turns the dissemination of its Child and Adolescent Statute and its other projects into one of the strong points of its operations. This particular benefit is due to the presence of business leaders who have a broad relationship network among the corporate management and boards of directors, as well as among professionally skilled technical and administrative people, so it is easier for them to set up partnerships. The diversity of media used, allied to the constant use of its relationship networks, drives the penetration of Abrinq Foundation's messages in society, thereby reinforcing its political power for interacting with government and nongovernmental bodies.

To make communication systems in CSOs more effective in improving the image of the organization externally and sharing values internally, it is important to use management tools that provide a broad and clear disclosure of goals, objectives, and results. The use of these tools and the ways in which the goals are disclosed constitute important instruments for managing the culture of the organization insofar as they provide to the employees or collaborators and other types of audiences' access to information, which in turn strengthens the organizational identity and its public image.

The Influence of Cultural Patterns in Decision-Making

The cultural patterns prevalent in decision-making processes, both in their strategic and organizational aspects, alternate between liberal and conservative and between centralizing and decentralizing. It is therefore fundamental to study the manifestations of these processes at all decision levels within organizations, in such a way as to identify the broader and more disseminated cultural aspects, those that are embedded, or even those that could be categorized as local sub-cultures.

The studies pointed to two main ways for optimizing decision-making: by means of the authority of the leader and the sense of readiness for action of employees and/or collaborators, which is normally associated with the more centralizing organizations, and by means of consensus, which is characteristic of a more decentralized leadership that encourages participation.

The strong influence of founding leaders in the origin and consolidation of CSOs sets off decision-making processes that have a clear sense of authority, with the aim of obtaining everybody's readiness and responsibility in order to transform decisions into reality. This is a positive aspect of the influence of the founders' leadership on the development and performance of these organizations. When the leaders leave or are succeeded, however, this effect is lost, because it is not naturally passed on to their successors. When organizations do not develop efficient administrative systems and processes, a succession crisis may result in a chaotic organizational performance and a weakening of cultural values.

In the CSOs we studied, an ongoing quest for the sharing and decentralization of decisions by means of participative processes can be seen at various levels, as in Codesser, an organization that provides educational, cultural and administrative support for agricultural schools in Chile. In this case, leadership was delegated to autonomous local offices. A clear sense of authority in the decision-making processes was established in each. This was done to encourage people's participation and to create arenas for exchanging ideas, the final decisions being the responsibility of the highest recognized hierarchical authority, whether that was the President of the Board of Directors, the General Manager, or the director of the school. Consensus was actively sought, although time extensions arising from this search were not tolerated. Even if delays are recognized as the cost inherent to the construction of shared authority, keeping to schedules was a priority, which shows that the culture is one that aims for efficiency and effectiveness. Consequently, once the decision has been taken, there was a profound sense of readiness to turn it into a reality, in an all-embracing feeling of loyalty to the decision-making authority.

In various cases, however, it is difficult to reconcile participation and the centralization of decisions because of the complexity of governance structures with their boards of directors and board meetings, which often have superimposed activities and deliberations as well as imprecise limits. In Corrente Viva, the decisions are slow by virtue of the constant search for consensus and because it is structured into working groups in which responsibility for decision-making is superimposed and diffuse. Nevertheless, although this search for consensus causes delays in the

decision-making process, it allows for legitimizing the decisions vis-à-vis the participants.

In other situations, decision-making is closely linked to the president of the social organization, especially when he enjoys prestige and power. The president of the Chilean Security Association, Eugenio Heiremans, has a charismatic style that combines a certain degree of formality in institutional relationships with glorification of religious, family, and patriotic values. At the same time, the organization's management and working practices are undergoing a process of transformation as it tries to maximize the autonomy of employees and improve flexibility and performance. Its values and mission become fundamental in promoting the commitment of people to the organization and minimizing the risks inherent to the decentralization of the decision-making process. As people increasingly operate from a solid cultural base and with common criteria for taking decisions, centralization becomes counterproductive and autonomy can be encouraged.

In Corrente Viva, conceived and developed to network among social organizations, the implementation of a horizontal management model remains the great challenge. However, when faced with the realization that power relationships are always established in any type of social grouping, Jos Schoenmaker, the organization's coordinator, reiterates, "control of power becomes fundamental to the performance of the organization, allowing it to be distributed in accordance with the competences that naturally arise within members of the network."

A latent conflict exists between centralized and decentralized models of management in social enterprises. Likewise, people behave in ambiguous ways, sometimes appearing to want decentralization of power and shoulder new attributions and responsibilities, and sometimes demonstrating an almost mythical faith in the founder and thus failing to be more intensely committed to the organization's objectives. An example of this conflict can be seen in IDEC, a CSO dedicated to guaranteeing consumer rights in Brazil. When faced with an organizational change arising out of the need for professionalization, IDEC reorganized its management team and attributed new functions to people who had been distinguishing themselves in operational activities and were eager to share power and take decisions regarding the future of the organization. In their new functions and faced with the challenges of the new organizational structure, they still expressed nostalgia for the presence of one of the founders of the organization, who had withdrawn from her daily management functions in order to focus on the consolidation of the institution.

In this type of situation we recommend the use of participative management models with a more demanding and careful sense of managing results. The practices of corporate governance and the use of cross-sector alliances, both of which integrate decision-making between the constituted authorities and external constituencies, may perfect the decision-making processes in social enterprises. By doing so, they would strengthen those cultural patterns most conducive to good organizational performance.

Final Reflections

Comparing the Cultural Patterns of Social Enterprise in Companies and CSOs

The most general conclusion we reach from the analysis of cultural patterns of the social enterprises we have considered here is that managers ought to develop the competences and skills that will allow them to identify the preponderant cultural patterns and strengthen those that have a direct and positive influence on organizational performance.

In order to map out the details that will allow us to recognize these patterns within the behavior of people and in the relationships that make up the organizational environment, we need to understand that culture is an element that results from the dynamism of the organization and therefore is influenced by the external and internal factors that constitute the daily life of the undertaking.

This dynamism presented itself in particular ways in social enterprises led by companies and by CSOs. In the analyses carried out to prepare this chapter, we noticed that cultural patterns are more visible and better structured in social undertakings attached to companies. This does not always have its origin in the common and shared values of members of the organizations, but rather results from a process of maturing and organizational learning, within which a set of values that will sustain them over the long term becomes deep-rooted and consolidated. This process of organizational learning begins with companies' reactive initiatives normally associated with external pressures. Over time, this evolves towards an understanding and a strategic alignment between social and business actions in which new relationship patterns with stakeholders are established and the commitment of the company's employees is consolidated, thereby contributing to a redefinition of the role of the company within its social context.

Unlike the evolution described above, social enterprises of CSOs seem to take their form from their original motivation, normally associated with

their indignation in the face of social inequalities and concern for environmental problems. On the one hand, this seems to encourage more intense and obvious cultural patterns in such organizations, like those that characterize leadership and decision processes. On the other hand, the cultural patterns that are manifested in the organizational structure and management policies tend to have more diffuse and less mature features, the predominance of informality in the culture being evident.

In both types of social enterprises analyzed, we detected the importance of interpersonal relationships and internal communication systems for organizational performance. In CSOs, these elements are essential for sharing values, responsibilities, and attributions. In companies, interpersonal relationships and internal communication systems play a key role in the management of the conflicts that result from delegating responsibilities, and they strengthen the bonds of trust between employees and/or collaborators. This is because, right from the outset, companies pass on their formal management procedures and the organization of working processes to the social enterprises with which they are associated. At the same time that this tendency could, in principle, guarantee a shorter route to the effective social impact of the undertaking, it also highlights the need for management of conflict and consequently of interpersonal relationships for the effective transfer of said business competences to the social undertakings.

Thus it becomes imperative to balance productivity gains, generally obtained from the evolution of technological patterns of production and management, with a greater degree of humanization in working relationships, to guarantee a more effective appropriation of values and beliefs by all employees and/or collaborators. The mere transfer of the management standards and procedures of the companies to their respective social undertakings does not appear to be sufficient to achieve continuation of the initiative, economy of scale in their social actions, and effective sustainable development results.

Pressures for perfecting the external communication systems in business social enterprises do not appear to be as intense as they are for the social undertakings of CSOs, which require a more effective interaction with the external environment to raise funds for their survival. This observation may also be interpreted as a reflection on the still controversial issue of whether social action is a responsibility of business. Therefore, the way the company is going to deal with the communication of its social undertaking is important because it reflects the values on which its culture of social responsibility is based.

Managing Organizational Culture in Social Enterprise

The studies carried out indicate that the prevalent culture in social enterprises is mainly manifested in their management processes and in the design of the organizational structure. In addition, three systems offer a deeper understanding of the organizational culture because they reveal the predominant distribution of formal and informal power. These are the internal and external communication systems and the decision-making system, which is used right from the strategic level through the operations of the undertaking.

Additionally, as the literature indicates, the enterprise's cultural patterns tend to derive from the values and assumptions arising out of the social context in which the undertaking finds itself; consequently, the cultural aspects that predominate in both tend to be quite similar. By virtue of this, the social enterprises studied show differences—both at the strategic and operational dimensions—which tend to reflect their links with either business organizations or with social movements.

Another important source for learning about the cultural patterns of an undertaking can be found in the way it exercises leadership, both from the point of view of the personal and professional attributes of the founders and principal managers, and from the styles that predominate in the different situations and stages of the organizations' life-cycles. The joint influence of the cultural patterns revealed in management procedures, communication systems, the exercise of leadership, and decision-making processes contributes to changes in social enterprises: from the philanthropic-paternalistic paradigm, they tend to promote empowerment and active citizenship; from being unstructured and informal organizations, they gradually assume legal-institutional structures and formalized management processes. Each one of these alterations influences, and is influenced by, the change in cultural patterns, from those that are most easily seen, such as the organization of management processes using modern methods and advanced technology, to the most essential, such as power networks that dominate the very character of the undertaking.

Obviously, these organizational transformations, characterized by a re-creation of the undertaking on a large scale, but above all by achieving the objectives that are most deeply imbedded in its culture, do not occur without slower phases and painful episodes. Analysis of how organizations manage critical incidents allows us identify the prevalent cultural features, those that are substituted, and those that are reaffirmed during this transition. Such situations form part of the organizational dynamics and have gained in frequency and speed since the 1990s. They cannot occur in

default of the actions and decisions of the managers, who must be armed with the requisite competence and skills to manage the organizational culture, both during those phases when the undertaking appears to be running uneventfully, and when external and internal pressures cause turbulence and uncertainty.

Analysis of the influence of the main cultural patterns in the performance of social enterprise causes us to reflect on an equally relevant issue: which cultural patterns can be most easily managed and how can they contribute to the performance of the social undertakings?

The strengthening of values related to the social cause promotes greater internal cohesion among internal groups, thus enhancing organizational performance. This strengthening may become a reality upon the implementation of better performance measurement. We observed in some organizations an initial reluctance to adopt outcome indicators; members argue that these tools would still not portray the effective social impact forecast for the social actions. Nevertheless, the definition of indicators at the outset, even if inaccurate, is fundamental for initiating an evolutionary management process and contributes decisively to strengthening the commitment of people to the organization's objectives. The implementation of these outcome indicators is also a key element in the process of training employees, providing them with the systemic and integrated vision of the undertaking that is essential for making it effective.

Concerning the issue of leadership, the balance between the exercise of the leader's authority and the search for consensus is one of the main challenges faced by both types of social enterprises, in a process in which the clear and objective definition of their missions and of the goals that make them viable acquires a major relevance. In other words, the exact moment of reaching consensus and making the authority of the leader prevail is strongly related to the degree of the organization's need to achieve its goals. It is important that these be widely known and shared with the employees and/or collaborators, so that a culture of sharing responsibility for the results prevails. In the case of the total lack of consensus among the employees, the authority of the leadership would have to be sufficient for promoting co-responsibility for the decisions taken. In this aspect, social enterprises linked to CSOs seem to be ahead of those linked to companies, perhaps because they have more solid cultural patterns.

These reflections allow us to conclude that the organizational culture in social enterprises can indeed be managed. Cultural patterns can be malleable through the positive influence of the leader, improvements in the internal communication system, and the development of systems of

performance measurement aimed at stakeholders. These elements, when managed jointly, will allow the organizational learning process to mature, and, in the final analysis, substantially improve the social undertaking performance, consolidate a culture of social responsibility, and facilitate the alignment of the economic and social values.

We would like to stress that valuing the learning processes constitutes one of the essential elements for managing the cultural aspects of organizations in general, and of social enterprises in particular. That is because they make the generation and dissemination of knowledge a daily and universal practice that contributes to the continuous development of the organization and of the social fabric in which it finds itself.

To the maturation of learning it is important to add flexibility and firmness when it comes to managing the social indicators. This necessarily requires a complex interaction of the enterprising organization with the social environment. In this sense, participation and structuring of the work into networks and cross-sector alliances contribute to the effective handling of those processes of organizational change that are designed to strengthen social enterprises.

Notes

1. In this chapter, we use the term "cultural patterns" as synonymous with "behavioral patterns."

2. A definition based on the organizational approach adopted by Edgar H. Schein, *Organizational Culture and Leadership,* 2nd ed. (San Francisco, CA: Jossey-Bass, 1992).

3. This typology is based on the conceptual framework developed by Maria Tereza Leme Fleury and Rosa Maria Fischer, in *Cultura e poder nas organizações* (São Paulo: Editora Atlas: 1996).

4. Among the authors who adopt a contextualist approach, we resorted particularly to the work of Andrew Pettigrew, from the University of Warwick, United Kingdom.

5. This figure was developed on the basis of the conceptual framework of Fleury and Fischer, *Cultura e poder nas organizações.*

6. The Earth Summit 2002 (or Eco '92, as it became known in Portuguese speaking nations) refers to the United Nations Conference on Environment and Development, which was held in Brazil in that year. It is widely perceived to have marked a turning point in the perception of global environmental issues. For more information, visit www.earthsummit2002.org.

5

Structuring the Organization

An organizational structure that puts the objectives of an organization into practice is a key mechanism for the achievement of superior performance in the generation of social value. This chapter analyzes those distinctive characteristics of organizational structure that promote better implementation of an organization's social strategy, when these are combined with a set of work systems or flows that are aligned with this structure. The following discussion uses several concepts which need to be defined at the outset. "Organizational structure" here refers to the ways work is divided into different tasks that are then successfully coordinated."[1] "Work systems" or "work flows" are broadly understood as the mechanisms that link the various parts of the organizational structure and facilitate their operation, including authority systems, the way work is done and coordinated, the way that information flows within the organization, and its decision-making processes.[2]

The literature on organizational management includes many analyses of management practices resulting in high performance. Various researchers emphasize the need for more in-depth studies of existing relationships between strategy, structure, culture, and management systems.[3] For example, a group of researchers from the Harvard Business School[4] studied the management practices of 160 organizations that demonstrated high performance in their sector during the last ten years. The study found four main factors that, when adequately managed, lead to high performance. The first two—a clearly focused and defined strategy and a culture that promotes outstanding performance—were discussed in the two previous chapters of this book. The second two—adequate implementation of strategy and a flexible organizational structure—are the main topics of this chapter. In addition to these four central factors, there is another set of practices that can always be found in high performance businesses and reinforce the effective performance of the first set. These include the creation and retention of a talented team, the development of processes that promote innovation, and leaders who are not only oriented to the fulfillment of objectives but also to the development of the people on their staff or team.

Our purpose here is to contribute to previous research about organizational analysis applied to the specific issues of the generation of social and economic value in businesses and CSOs. As discussed in Chapter 3, long term success of social enterprises hosted in private companies seem to be best assured when they are aligned with the achievement of strategic commercial objectives.[5] When this is the case, the activities of the organization on environmental, labor, social, and economic issues seem to insert themselves naturally into organizational management and lead to better use of the organization's tangible resources and individual talent and other intangible assets such as the systems, mechanisms, and tools of management available for the adequate functioning of the organization.

On the road to achieving improved use of resources and, consequently, to efficient performance in the management of social enterprises by businesses, there are several hypotheses about the type of structure that simultaneously promotes the effectiveness of the organization and combines the generation of social impact with the achievement of commercial goals. Our research results indicate that there is more than one mode of work that can be successfully employed by businesses to achieve positive results in their social actions.

In the case of CSOs, a careful analysis is necessary of the different forms of organization that promote the efficient use of scarce resources in order to offer quality social services in an environment of economic stability and sustainability. Our research suggests that the coexistence of formal processes with flexible structures facilitates this task.

While both types of organizations present specific challenges for management, a comparative analysis of their organizational structures and their modes of work can contribute to mutual learning. The discussion thus far provides the necessary background to understand the two central questions that we seek to answer: What factors influence the capacity of a particular organizational structure to create economic and social value? Does an optimal structure exist for the implementation of social enterprises?

The creation of organizational structures and the definition of work systems for the human resources of an organization are key components in turning strategy into action. In the sample of organizations analyzed, we found that organizational structures are affected by a series of variables that condition them and, at the same time, the structures themselves have an impact on the capacity of the organization to generate economic and social value through its social enterprises.

In addition, the greater or lesser orientation of the organization toward the achievement of economic and social objectives presents important

challenges for the management of social enterprises. The analysis that follows highlights distinctive features of the cases of businesses and CSOs. The structures and work systems identified by this study in both types of organization demonstrate the diverse approaches used in the search for effective organizational platforms for social enterprises.

In any organization that seeks efficiency and effectiveness, the most appropriate organizational structure will be the one that facilitates the development and execution of strategies that it plans to implement. Our study suggests that there is no one ideal structure that is applicable to all cases, because which structure is most appropriate depends on factors in the surrounding environment that affect the organization, as well as on the type of tasks performed and the level of complexity of the social enterprises in which it is engaged.[6]

Once the social objectives of the organization and the actions required to achieve them are defined, it is necessary to design the manner in which tasks will be divided and, at the same time, establish the appropriate coordination and integration mechanisms to assure teamwork. Our analysis begins with businesses.

Businesses and Organizational Structure

The analysis of the businesses included in the sample indicates that there are three basic forms of doing social work that, depending on the conditions in which they are implemented, are the most effective: the same organizational structure; extended organizational structure; and new external structure. We can plot these modes of functioning on a spectrum ranging from those situations that do not affect the existing organizational structure to those in which a different organization is created to implement most of the social enterprises aimed at target populations that the business considers to be a priority (see Figure 5.1).

The concept of a spectrum summarizing the three most common modes of operation observed in the businesses analyzed is a useful way to illustrate the diverse options available and the possible transitions that different organizations undergo during their existence. Some organizations progressively decide to invest greater resources and formalize their social enterprise management functions in their organization structure. In an initial phase, they may prefer not to alter the organization and thus assign social enterprise management functions to their existing personnel. Later, they may provide more space in their formal structure for the new initiatives that have become more important to the organization. Of course, not all organizations evolve through the three modalities described. It is also

Figure 5.1
**Alternative Structures for the Management of Social Enterprise
in Private Businesses**

	THE SAME ORGANIZATIONAL STRUCTURE	EXTENDED ORGANIZATIONAL STRUCTURE	NEW EXTERNAL STRUCTURE
	Management of social enterprises assigned to line departments or staff	Creation of areas or levels specifically for the management of social enterprises	Creation of independent organizations for the management of social enterprises
Changes in the original structure	**No changes**	**New support structures Adhoc committees**	**Business associations or foundations**
Effects observed	Attention to internal and external stakeholders according to area functions	New level(s) assume(s) relations with external stakeholders and/or volunteer teams Their work may be enhanced by work in alliance with other organizations in the environment	A new entity assumes relations with external stakeholders and/or teams of volunteers Its work may be enhanced by work in alliance with other organizations in the environment

possible that an organization will initially choose an organizational struc-
ture with a higher level of formalization and division of work, and then
adopt a more simple structure. The combined effect of perceptions regard-
ing issues such as the most appropriate type of management for social
enterprises, the existing legal structure, and the success of other similar
initiatives define the most adequate structure to be implemented.

Significantly, 50 percent of the firms analyzed chose to create an entity
distinct from the business itself—a foundation—to manage the great
majority of their social enterprises. Another 25 percent maintain the man-
agement of their social enterprises within the firm's line departments
without changing their organizational structure, while the remaining 25
percent created one or more areas within the firm charged with specific
aspects of the management of social enterprises.

Below, we will analyze the different modalities in the proposed typology
in greater detail.

Modality I: The Same Organizational Structure

This modality exists when, in practical terms, the organizational structure of the firm is not altered and social enterprise management functions are assigned to the heads of areas in charge of the organization's relations with its environment such as Institutional Relations, Public Relations, or even Marketing. In some other cases in the sample, responsibility remains with the general management or is assigned to line managers who assume these functions as part of their responsibilities toward the stakeholders associated with their areas. This was observed in cases of technical or operative divisions whose functions include process quality control or monitoring environmental impacts, in cases of divisions or heads of logistics, distribution or supply procurement who deal with suppliers and distributors, and, finally, in cases of human resources divisions, which deal with issues related to personnel.

This modality of work provides important opportunities for the integration of social value into the commercial strategy of the business. In this situation, workers naturally and spontaneously assume both commercial and social functions.

As analyzed in Chapter 2, in the initial stages of social enterprises, the leader plays an important role because activities are developed according to a strategy characterized by limited systematization and, consequently, no major changes in organizational structure take place. Nevertheless, gradually, as the organization acquires more experience, adjustments are made in the way these enterprises are managed and their management becomes more structured.

A case that illustrates this kind of evolution is the first stage of management of social enterprises by the Peruvian company Cementos Lima. The Office of Plant Security and the Environment initially centralized those social initiatives that were aimed at the community and were created to control the environmental impact of the firm's activities on the surrounding population. At the same time, this firm's initiatives related to the welfare of its personnel, and their families were managed by human resources areas. During this process, the general management of the company played an important role in promoting the development of social action and communicating the need to continue this line of work to members of the board and management team.

Efficient use of resources. Evidence from the cases studied indicates that when the organizational structure is not affected by new entities that enlarge the formal structure, the organization channels its resources

directly to the object of its social activities, making use of its available installed capacity and its value chain. The best illustration is the Fundación Coca-Cola in Chile, created by the Coca-Cola Corporation and its local bottlers to channel its contributions to scholarships, training programs for young entrepreneurs, and the installation of laboratories in various schools around the country. The foundation itself is only a legal formality since it has no personnel. Although it is a legally separate entity, in practice it operates using the internal structures of the businesses that created it. As a result, the structures of these organizations remain intact and the management of social enterprises is inserted into the functions of the firm's personnel. The foundation chooses scholarship recipients through social workers from the human resources areas of the bottlers, which makes it easier to reach the diverse communities in which the corporation operates.

Each part of the organization plays a social role. Another type of situation arises in those organizations in which social values are strongly interiorized by workers. In these cases, the majority of employees engage in social initiatives without this leading to changes in organizational structure. Every worker understands that his/her work includes a social component that is not in contradiction with the commercial component, and therefore he/she integrates this component into daily practice.

The case of the Colombian company Alpina, a producer of dairy products, illustrates this point. Different levels of the organization are in charge of the social enterprises promoted by the firm: programs aimed at employees are administered by the human resources area; programs for suppliers are administered by the head of the purchasing division and the head of the milk marketing division; and programs for distributors are under the head of the corresponding division. This pattern is repeated for each type of social enterprise. The principal advantage of this system is that the members of the organization achieve the integration of all social enterprises into the principal processes of the company and its business model.

According to one of Alpina's staff members, "despite the fact that there is no integrated strategy, each area does many things with a social impact in their area; they create it, execute it . . . the social initiatives are totally aligned with the business and the top management wants to keep this initiative going because it considers as fundamental the pedagogical process in which the company gives its people the opportunity to participate in citizen responsibility and, in addition, because of the how easy it is to provide the infrastructure so that people—who want to do something but don't know what—can do something."

Management indicators that link social and commercial objectives. In the sample of firms analyzed, the organizations that identify synergies between commercial and social strategies establish management indicators that link social enterprises to the achievement of corporate objectives.

In the case of Cemex, the leading Mexican cement company, the organization established what it calls "operation sustainability" as a strategic objective. This operation's primary goals are building good relations between the firm and the community, developing responsible environmental practices, and excellent management of human resources. Issues linked to social initiatives have been included in the balanced scoreboard of the company, which permits alignment of practices and the maintenance of strategic unity despite the complex divisional organization of the firm.

The Brazilian mining company Samarco has an integrated system of information and management control that promotes environmental management, reduction of risk in its operations, definition of goals, and continual improvement. Employing this mechanism, it designed management indicators that measure the achievement of the organization's priorities and strategic objectives. The effects of mining activities on the environment led the firm to take measures to reduce environmental emissions and energy costs, resulting in savings of about $6 million dollars. The company employs other indicators to improve worker productivity, workplace safety, and the environmental performance of its operations.

Principal risk and alternative forms of risk management. This type of organizational structure may be appropriate for the type of situation described above, in which a strong organizational culture and the system of work both favor the insertion of social initiatives into the regular operations of the organization. However, it is important to note that for some organizations, not included in this study, these types of practices do not bring such positive results. It is common to find organizations that have a reactive attitude to social responsibilities and engage in such activities only when they have difficulties in their relations with the community or with other social agents. In such circumstances, as the organization's commitment to social issues is limited, it will have the regular company personnel deal with the problem without spending too much time and resources on this task.

In this reactive mode there is a risk of social enterprises operating as disarticulated initiatives that do not take advantage of possible synergies among the various areas involved. In such cases, the organization must make every effort not to lose a global vision of social strategy and should define policies that maintain relationships between these activities and

strategic organizational objectives and that assure an efficient assignment of responsibilities.

Modality II: Extended Organizational Structure
In this modality, one or more levels of the organization itself are responsible for the management of social enterprises. This does not necessarily mean that a new formal unit is created in the organizational structure or is independent of it, as the organization may use less structured work mechanisms to fulfill its social role. These may include the creation of ad-hoc teams that are assigned this function or joint work with other organizations in the environment using the mode of institutional networks or strategic alliances. In this way, social and commercial objectives can continue to be aligned.

A case that illustrates this modality is CANTV, the Venezuelan leader in telecommunications, privatized in 1991. For various years, this firm centralized the management of its Fondo Social and other philanthropic activities in a typical support area of the organization, the Communications and Public Relations Division, and specifically the area of Institutional Relations. This area was responsible for the administration of the Fondo Social, which assigned resources to various social organizations employing a philanthropic focus. In order to decide which projects should be supported by the Fund, the firm created a committee made up of several of the most important managers of the organization, demonstrating the firm's strategic interest in social activities. According to the management team, the creation of this committee allowed the firm to keep the management of social investments within its organizational structure. This was very important to them since they considered that CANTV's social action corresponded to the central values of the organization. Beginning in 2003, strengthening relations with the Venezuelan government became a strategic issue for the management and especially for the head of the division of Regulatory Matters. They decided that one way to achieve this goal was through the direct administration of a social project of its own that would demonstrate the competencies of the firm and would be more effective than the Fondo Social in establishing alliances with the government. As a result, CANTV established the Super@aulas program at the end of 2003 and placed it under the business unit called Businesses and Institutions, which reported to the vice-presidency of the firm.

Major signs of commitment. One of the positive aspects of having the management function of social initiatives centered in one or various identifiable levels of the organization is that it provides visible signs of

commitment to the rest of the organization and its stakeholders. In the case of MRW, the Spanish courier company, the organization has specific units charged with the execution of internal and external social programs which form part of its line departments. For external activities, it created the Division for Social Action and Sponsorships and, for internal ones, the Department of Corporate Relations, which is in charge of communications and personnel development. In addition, and because it works primarily with franchisees, MRW established an Ethics and Arbitration Committee that, among other things, is in charge of the development of new products and services.

Toward more specialized functions. As social initiatives become more numerous or more complex in character and scope, firms achieve higher efficacy when they progressively decentralize social enterprise management in new units, which have their own human resources as well as the competencies required to adequately perform their function. This is the case of C.A. Ron Santa Teresa, a Venezuelan rum producer whose organizational structure evolved in response to growth in the firm's social activities. Ron Santa Teresa is located in a municipality with a variety of social problems, including invasions of land near the plant by poor people, juvenile delinquency, and a lack of housing plans, but it is also an area with potential for the development of tourism. In response to these problems, the firm promoted the creation of specific organizations that manage social programs and bring together actors from the surrounding environment to establish strategic alliances and generate synergies. At the same time, it created advisory boards made up of its top managers in order to monitor its social enterprises. Inside the organization, the major part of the management of social projects is carried out in two areas: the Institutional Relations Division and the Community Projects Division, which are exclusively dedicated to the planning, execution, and control of investment projects.

Inditex, a Spanish clothing manufacturer and retailer, puts labor practices that assure dignified work at the core of its socially responsible agenda. In addition to adopting this focus inside the firm, Inditex extends it to its whole chain of production, distribution, and sales. The firm implements this policy through its Department of Corporate Social Responsibility, a Social Counsel made up of well-known representatives of civil society with which it establishes a platform for dialogue, and the use of external auditing organizations to assure that its code of ethics is applied through the whole supply chain.

The need to avoid duplication and internal conflicts. The analysis of the case sample indicates that it is very important to define functions

clearly and fine-tune coordination mechanisms. Otherwise there is a risk that different levels of the firm will decide that the responsibility for social enterprises is theirs, leading to a duplication of efforts or, in the worst case, harming good relations within the organization and with external actors. The case of the Peruvian mining company, Antamina, exemplifies the difficulties that can arise when two areas of the same organization must manage relations with the same community to serve different functions. In Antamina, the Community Relations Area had the responsibility of resolving short-term conflicts with the local population in order to assure the proper operation of the mine. For example, it had to address the effects of rapid relocation of residents near the extraction zone, a move that generated radical changes in life style and resentment from many community members who had worked on their lands for years. Simultaneously, another part of the firm, the Community Development Area, was in charge of social investment projects oriented towards longer-term sustainable development of the region and the same community. When staff from the latter approached community members to promote development projects, they encountered resistance from some residents given their initial experience with the firm through the Community Relations Area. Although the firm separated the two functions in different units, it became difficult to coordinate tasks when both areas of the firm had to deal with the same community in order to fulfill the established objectives on different timelines and with different priorities.

The need to involve the whole organization. Another potential problem can develop when one or more areas of an organization that are formally charged with running social enterprises transmit to the members of the organization the idea that this function is their exclusive competence, forgetting that when members participate in these types of actions they strengthen their sense of belonging to the organization and committing to its objectives and values; moreover, the participation of a larger group of members enhances the social actions.

When an organization wants to compile information from the community regarding its requirements and opinions in relation to the firm, its personnel constitutes a key mechanism to accomplish this goal. A case that illustrates this point is the Mexican company Cemex, which is implementing a set of actions to improve its relations with the community. The firm decided to facilitate continual contacts between plant personnel and its management and implement training programs whose goal was to make sure that the personnel included the gathering of information about community interests and potential problems into their regular work routines.

According to Cemex managers, the management of social enterprises is an issue that should not be limited to communications alone, but should be converted into a question related to operations management and the development of capacities within the organization.

Modality III: New External Structures

In Modality III, a firm creates a distinct organization with a separate legal status, although its management may not be completely autonomous. The creation of a new organization responsible for social enterprises may be accompanied by the creation of strategic alliances with other social agents and/or the formation of inter-institutional work networks to expand the impact of the initiatives undertaken.

Although the existence of an entity independent of the firm, which manages the majority of its social enterprises, could be an indication of a disjuncture between the commercial objectives of the organization and its social initiatives, evidence from this study indicates that firms that have chosen this separation consider corporate performance in maintaining good relations with the community as a strategic factor and have often created business foundations as a result of the wide scope of their social investment. Obviously, one of the most important challenges for the firm in this type of organizational structure is the design of mechanisms of communication and coordination that tighten the links between the firm and the foundation.

A visible face for the outside. The creation of an identifiable entity that concentrates the social enterprise management function demonstrates signs of commitment, as in Modality II, and permits the organization to show one visible face that leads on this issue and facilitates channels of communication to the surrounding environment. In the case of the Fundación Arcor, created by the Argentine producer and exporter of candies and confections, the Foundation has such an important presence in the environment in the countries where it operates that it seeks to generate strategic alliances with other foundations and CSOs to develop joint projects. The Arcor Foundation reinforces the image of the firm in the community as a promoter of local development by making sure that the projects it supports are not only sustainable but also include matching investments from partner organizations.

In the case of Brazil's Grupo Abril, an important publisher of popular magazines, the firm makes sure that ethical and socially responsible values are reflected in the editorial policies of the media it produces, including magazines, web sites, television programs, and educational books, as well

as in activities that promote education, culture, health, and environmental issues. The social objectives of the Grupo Abril are strongly interwoven with the rationale of its businesses. The visible face of the group's social action is the Fundación Civita, which centralizes the preparation of publications that are oriented toward improving the quality of teaching and teachers, of corporate volunteer programs of the group's businesses, and other actions in the areas mentioned above.

A similar approach is used by the Fundación Educar of the Grupo D. Paschoal conglomerate in Brazil, whose goal is to "concentrate the social programs of the group, with a focus on education." Initially, the businesses had a charitable orientation in their social initiatives. The creation of the foundation in 1998 changed this perspective. The foundation defined its strategy as "multiply and influence" in the field of education as the central vision to guide its actions. Another similar case is the Asociación Atocongo, created by the Peruvian company Cementos Lima. It has been able to centralize both its philanthropic and the major part of its social investment in the association, thus avoiding the duplication in support and multiple approaches in dealing with the demands and needs of the community that had previously led to disorganized strategies in the firm's relations with the community.

Opportunity for the creation of an ad-hoc team. When an independent entity is created to carry out social enterprises, it is possible to form a team especially chosen for these activities that is specialized in the issue areas of the new institution. A multidisciplinary team can be created whose composition will depend on the type of activity undertaken (social, environmental, productive, labor, economic, or political).

Although the creation of a new foundation does not necessarily imply forming a new and larger staff, it provides an important opportunity to evaluate the individual competencies available for the development of social enterprises. The firm can then use this evaluation to decide whether it needs to incorporate new personnel or can make use of those already working for the organization, who will be assigned tasks according to the objectives of the new foundation. Obviously, the allocation of resources depends on the way the firm's managers conceive of the role of this new institution.

This is the case of the Colombian oil company, Hocol, which has had several turning points in its approaches to social management during its history. The organization went from centralized management by its owners to a stage of professionalization of work under the influence of Shell, the transnational corporation, which was a co-owner of the firm for a few

years. By the time Shell sold off its holdings in Hocol, the necessary conditions for organized social action had already been created. At this point, Hocol carried out its social actions utilizing subcontracted organizations and personnel. Eventually, it realized that these investments would be more effective if the firm itself managed them, rather than using intermediaries. As a result, it transferred the management of its social investments and relations with the community to the Fundación Hocol. This decision led to the hiring of specialists in fields related to its integrated community development programs, and the Foundation became the visible face of the firm.

Effective channels to involve other actors. One factor that works in favor of creating an independent entity is that, as a nonprofit institution, it will be able to receive funds from other actors to carry out its projects, including donations from individuals or funding organizations. This way it can become an organization in which social enterprise efforts converge and are multiplied to achieve a greater impact. The case of Ingenios Pantaleón demonstrates the existence of an organizational portfolio of social activities managed by various entities linked to the firm. According to its model of social action, each initiative must be sustainable in the long term and should emphasize social relations, reinforcing the productive model of the organization. At first, the division of human resources took on initiatives related to personnel management; the firm's foundation took care of the broader needs of its workers; the foundation of the sugar industry association took care of the needs of the workforce at industry level, and, finally, social responsibility on the national level was carried out through a national association of businesses. Each level carried out a different function, mobilizing different resources and producing additional benefits for the firm and for society. This assignment of functions illustrates the process of institutionalization of relations with its various stakeholders, during which the firm transforms its organizational structure along the spectrum discussed in this chapter, to the formation of a portfolio of organizational levels to carry out different functions for different groups—employees, communities, industrial business association, and the national business sector. To assure adequate coordination between the different organizations, the firm acts as a linking component. At the same time, a shared vision and values among these entities provide a common framework for the development of social enterprises.

The need to define fields of action precisely. At this point in the analysis, the reader may have reached the conclusion that the creation of an association or foundation that is legally independent from the firm may be the best option. Yet there are issues that need to be resolved properly in

order to avoid possible problems with this modality. For example, the creation of a legally independent entity requires initial investments that are relatively high if it is decided that the new organization must have its own, newly hired personnel. Cases such as the Fundación Coca-Cola and the Fundación Acindar demonstrate that this is not the only way to conceive of a new organization. While these foundations have their own independent legal status, in practice they make use of company personnel in their social actions.

In addition, it is not always a simple task to decide which social initiatives are to be turned over to the foundation and which will remain within the firm, especially in cases where both organizations need to work on various issues with the same community or when no agreement exists within the organization about whether or not initiatives that were managed by the firm's executives before the creation of the foundation should be transferred to the new institution. In Cementos Lima, for example, the executive responsible for environmental issues was the one who generally handled requests from the community, which carries out regular monitoring activities to measure levels of environmental impact resulting from the company's productive activities. When the Asociación Atocongo was created, communication between this executive and the head of the foundation became very important for the optimal sharing of information gleaned from the community, as well as for feedback to the community about the progress of social enterprises, as the residents were asking both organizations for answers. These types of situations have been resolved by some of the firms in the sample by maintaining the management of environmental issues as the responsibility of the firm's line departments, but coordinating activities related to environmental promotion and education for the community with the business foundation.

The need to establish linking mechanisms with the firm. The existence of two separate organizations can cause the firm to lose contact with its social initiatives and, as a result, reinforce the notion that these activities are unrelated to its core business. More specifically, the manager may consider that dealing with social issues is the job of the newly created entity, and therefore fail to include social objectives in the strategic plans of the organization. In this kind of situation, it will be unlikely that social initiatives will leverage and strengthen central organizational competencies, eliminating the alignment between the creation of social and economic value.

Conversely, it is desirable that those firms that create external organizations capitalize on their accumulated experience in management. When

this occurs, the new association or foundation generally adopts the good practices and work systems of the firm that created it. In a number of the cases studied, the firm even assigns its own personnel to administrative functions within the new entity.

In the previous modality, in which the firm only enlarges its structure to include new organizational levels, it usually capitalizes on its management experiences as the new entity or area immediately becomes part of the organizational structure. When a new external entity is created, it theoretically should take advantage of the organizational competencies of the founding firm. However, the available evidence indicates that this may not occur. Foundations do not always adopt the good practices and most modern management systems of the firms that created them.

Two Argentine cases illustrate situations in which foundations were able to make good use of the firm's accumulated experience in management. The first of these is the Fundación Arcor, which started out with personnel with no expertise in social issues; nevertheless, a clear process of professionalization took place when a specialist in these issues took over the general management of the foundation. The structure of the foundation is a matrix in which experts are grouped by areas and work on different programs, each with someone in charge. As an additional measure, the firm transferred some of its management specialists to the foundation, which permitted the capitalization of their experience, developing more professional administrative management. To inform the firm's personnel about its initiatives, the foundation publishes periodic bulletins, includes informative notes in its magazine, and prepares an annual report on its principal activities. According to Arcor, the point is not to leave relations with the firm exclusively in the hands of the leader but to align processes through the Board of Directors in which its managers and founders participate. The Fundación Arcor has even had an external team of auditors evaluate the image and knowledge of its activities among the employees of the firm.

The Fundación Acindar, created by Acindar S.A., an Argentine steel company, has a staff of only three members which is supported by external advisors to supervise the results of the projects it sponsors. The Foundation develops a plan of alliances with other actors in the environment to carry out its projects and has specialized teachers in each educational program. At the same time, the Foundation uses the firm's personnel for functions such as marketing and communications.

After our description of the three modalities of organizational structure, it is important to ask whether there are other factors, such as years of

existence, size, or type of social enterprise, that incline managers to choose one of these modalities. In our sample of firms the age of the organization did not have a significant influence on the type of structure used for the management of social enterprises. Some organizations that had been in existence for various years had recently started social investment projects. The evidence available suggests that factors related to the extent of the firm's experience with larger social enterprises (and not just economic sponsorship or donations), together with the managers' perceptions about the degree to which their projects have the potential to generate social and economic value for the firm, are more likely to play a role in the decision to assign more economic, material and human resources to these initiatives and to adopt new organizational forms, such as the creation of specific areas for social action or the creation of business foundations.

CSOs and Organizational Structure

The Predominance of Organizational Structures for Projects or Programs
In 95 percent of the cases of CSOs studied, the predominant organizational structure involves two main areas or divisions. The first consists of the programs or central services offered by the organization, and the second comprises the administrative or management functions that support the other line departments and the institution as a whole. In the majority of cases, both areas are on the same hierarchical level. When the organizations have a larger radius of influence, the structure often has another level of organization, with a decentralized work system based on geographical areas or type of population served. One can also find organizations in which the first level is organized by zones, while the second level includes offices or teams organized by projects (see Figure 5.2).

This type of structure has some of the characteristics of the matrix mode typically found in professional service organizations, in which support areas include specialists such as accountants, financial experts, legal advisors, marketing experts, and others; and line areas include experts on social issues and personnel who work in the field.

The characteristics of the matrix structure allow the organization to adapt to the dynamics of initiation, development, and termination of projects and programs with a fixed end date. When a project begins, for example, it requires a management group and an operational group and is assigned to a work group, which may participate in various projects over time. When a project ends, the team can be dissolved and the personnel assigned to new activities.

Figure 5.2
Typical Formal Structure of CSOs
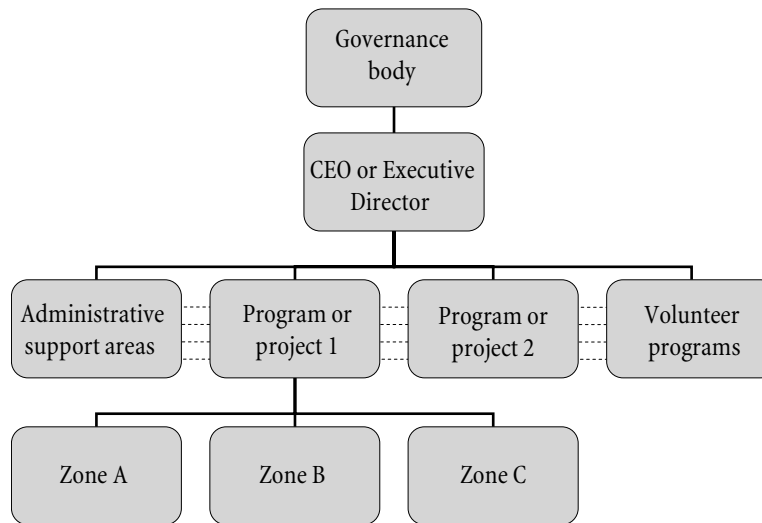
Although the structure described is not the only mode of work found in the organizations studied, it is common in nonprofit organizations. In cases in which the matrix template is not adopted, those organizations that work in various geographic areas, or have a large number of programs or projects centered on different issues, or have different types of orientations may decide to maintain one structure, centralized by functions that manages all of the activities underway. To achieve good performance, these organizations use coordination mechanisms such as work committees, periodic interchange of information, and supervision and monitoring processes. In this way, they avoid the need to create new formal levels in the organizational structure to administer each program, project, or population or geographical region served.

Cases that illustrate this practice include Crear Vale la Pena, Colsubsidio, and Labor. The Argentine organization Crear Vale la Pena focuses on promotion of the arts. In its organizational structure, the management of social programs is on the same hierarchical level as the areas that provide support. Its principal projects (education, artistic production, and social organization) are supported by Development of Resources, Communication and Administration, and Finances and Control units. Colsubsidio is a

Colombian institution that carries out social protection functions, offering services in the areas of housing, education, and recreation, social marketing, savings and credit, and health. Although in its organizational structure it brings together, under its Administrative Management unit, the services and administrative units, on the next hierarchical levels the management of departments that need to be self-sustainable is decentralized. The organization has even gone so far as to create business units to manage social marketing, health, and recreation and education. Finally, the Peruvian CSO Labor, dedicated to environmental protection and local community development, has two line departments which work on these issues. As the institutional mission and areas of action expand, the organizational structure also evolves and offices are opened in each geographical area served.

In order to understand the level of maturity of the organizations in the study, it is important to note that 75 percent of the CSOs studied have been in existence for ten years or more. In addition, 40 percent of all the organizations have been active for more than twenty years in the zones where they operate. The long experience of these particular organizations has led the majority to develop matrix organizational structures that facilitate the formation of work teams by program or project.

Below we discuss the principal implications of the adoption of each of the organizational structures described above.

Development of a Sense of Belonging or Team Spirit
In the majority of organizations in the sample both the areas charged with the development of programs or projects and administrative and technical support areas generate a team spirit among their members. This promotes positive synergies, but can also lead to the emergence of two internal subcultures that do not always coexist in total harmony.

The organizations studied employ various mechanisms to avoid the formation of a subculture among social experts and another among administrative experts. One of the most effective mechanisms was found in those CSOs that have formal strategic planning processes. These definitions of actions and results—social and economic—allow for greater unity in criteria used to prioritize goals and assign resources. In addition, given that administrative language is not always familiar to experts on social issues and vice versa, discussions about the subject matter, significance, and impact of social enterprises become a learning opportunity for both types of experts. A case in point is the Hogar de Cristo from Peru, where the executive management organizes periodic meetings to coordinate

activities, review financial results achieved, and encourage open participation by representatives of both areas, thus promoting mutual learning and cross-fertilization between the social and administrative areas.

Equilibrium between Administrative Power and Technical Power
Given the social character of CSOs, the need to generate economic results that assure the financial sustainability of the institution is not always well understood by those who do field work. Insistence on the fulfillment of certain administrative formalities and the rendition of accounts by units in charge of social enterprises can transmit messages that can be interpreted as a lack of confidence or excessive zeal on the part of the administrative team, making open and cooperative relations more difficult.

At the same time, because of the character of CSOs' social action, it is the people who work on social enterprises that take the leading role in daily activities. As a result, these individuals are not always sufficiently amenable to facilitating the work of the administrative team since they think they have a higher status. This tension may sometimes increase when the directors of the two areas compete for attention from the institution's top management.

A case that demonstrates efforts to diminish the prevalence of subcultures within the organization is Intermón-Oxfam in Spain. This organization has been using rotation of its directors among areas as a mechanism to achieve greater integration. For now, these efforts have met with some resistance as a result of a prevailing fear of losing expertise gained in specialty areas. In addition, not all directors are willing to participate in this rotation because they feel more identified with their normal line of work, and perhaps because they feel they understand it better. Despite these factors, Intermón-Oxfam's experience constitutes an important effort to find ways to promote not only vertical mobility but also horizontal mobility within the organization, something that can foster lateral learning.

Promotion of Networks of Organizations and the Creation of Supra-Organizations that Coordinate the Work of CSOs
It is important to point out the existence of alliances of organizations that promote work in networks by their member institutions, thereby enhancing the capacity of each organization and becoming a powerful mechanism for the achievement of shared institutional objectives. These alliances are embodied in new organizations that manage them with formal structures created for this purpose.

When the activities of CSOs acquire greater relevance, generally as a result of experience gained throughout their years of existence and the important impact of their social enterprises, their scope of action begins to expand geographically and new branch offices, associated organizations, or networks of organizations are created. This, in turn, creates the need to establish supra-organizations that act as coordinators, central organizations, associations, or federations of institutions.

In the sample studied, there are numerous examples of these types of networks and joint ventures. Below, we summarize some of the good practices identified as well as examples of how they are implemented.

Governance of the supra-organization. As a result of the perceived need to create an entity that represents associated organizations, networks of CSOs often create an Administration Council that brings together representatives of each participating institution. Although each organization that belongs to the network maintains its own identity—its legal status, human resources, and management system—this Council provides the necessary outlet for each CSO to express its points of view and put its specialized knowledge at the service of the group.

Among the networks of CSOs analyzed, we found highly complex cases in which the central organizations operate through branches and require more structured and formalized systems of work. In these cases, participative and cascading planning systems were developed in which, once the supra-organization defines its strategic goals, each organization aligns itself with it and defines its own strategic goals and plans of actions. In addition, to provide adequate monitoring of the actions carried out by the network, information systems have been developed with the technical support necessary to provide management transparency and to share objectives, plans, and performance indicators.

Fe y Alegría, which started its work in Venezuela in 1955, today provides educational services throughout Latin America. This organization allows significant autonomy to its national offices, achieving coordination through participative processes of strategic planning. In order to guarantee unified objectives, the Federación Internacional Fe y Alegría developed a Global Plan for Development and Institutional Strengthening. A draft of the plan is prepared by the executive committee of the Federation using a participative and iterative process and with the support of a technical team. This document is then sent out to the national directors for consultation until strategic priorities are established. Each national office uses this plan to prepare its own, and these are then shared through an information system that unites all the organizations in the Federation.

Another interesting mechanism that keeps the different levels of the organization in constant touch is the so-called vertical encounters: meetings between individuals from the lowest levels up to the highest levels of the organization. In this way, each area coordinator from an educational institution meets with teachers and workers to plan and monitor activities. This same scheme is repeated successively: between the area coordinator and the director of the school; between the directors of the schools and the regional director; between regional directors and national directors; and, finally, between national directors and the General Assembly of the Federation.

The generation of lateral learning. One characteristic observed in the sample of organizations that work in networks on social enterprises is their intention to create processes of development of their human resources and training for their members and beneficiaries. One such area of specialization is training activities that lead to the strengthening of the self-management abilities of the population served. These networks also require systematization of all their processes because of the complexity of their work and in order to assure effectiveness and generation of information systems open to the network to provide information on plans and to monitor achievements.

Corrente Viva, an organization dedicated to providing social assistance and promotion in the communities of Sao Paulo, is an example of work in networks to establish inter-sector alliances. Before they joined Corrente Viva, member organizations were accustomed to working in isolation and responding reactively to daily demands. Their current form of organization offers a space for the interchange of ideas between institutions in the network, thereby generating opportunities for learning and improving management as well as group reflection and the exchange of information on specific experiences.

The Fundación del Empresariado Chihuahuense (FECHAC) is an outstanding case in Mexico, which has been repeatedly recognized for its management model. The mission of this foundation is the reconstruction of the state of Chihuahua and its cities and development of a social fabric that improves the quality of life of the local population. The management model developed by this organization is an integrated system that includes everything from financing mechanisms to specific operative processes. FECHAC gets its resources from payroll tax revenues that are approved and collected by the local government. It invites businesspeople who are recognized by their respective business associations to act as volunteers by sharing their expert knowledge on subjects related to the Foundation's programs and, especially, to participate in evaluating prospective projects.

FECHAC works through an executive council and nine local councils that represent the various cities in the state of Chihuahua. These councils define strategic priorities in a participative manner, emphasizing the importance of generating alliances with other civil society actors in order to promote what they call "shared responsibility" and "a multi-alliance focus." In the sphere of normalization of processes, FECHAC has prepared procedure manuals so that its operational processes have clear criteria to define and administer aid to the community.

Searching for synergies throughout the network. One of the most frequent objectives of organizations that make up these cooperation networks is the search for synergies by bringing together the capacities of allied organizations. The role of the central organization is to act as a liaison and coordinator at the supra-organizational level, identifying these capacities. In addition, the central organization assumes the promotion of shared social causes to stakeholders and represents its members before funders in order to facilitate the joint search for funds. Finally, in its search for convergence in the work of the participating organization, the central organization normally carries out diagnostics of the capacities and resources that it wants to put at the disposal of all the organizations in order to enhance the impact of their enterprises and attract new partners or allies.

In the case of the Fundación Abrinq, which brings together Brazilian toy manufacturers, the organization has been able to take advantage of competencies in private enterprise to create a nonprofit network that seeks to influence public policies regarding the protection of children and adolescents in Brazil. Among the greatest strengths of the private businesses channeled in support of the network's objectives is the generation of contacts and recruitment of experts on issues related to childhood and adolescence, thereby gaining the support of international institutions specialized in this area such as UNICEF.

The Asociación Chilena de Seguridad (ACHS) brings together a set of companies interested in issues related to job-related accidents. They decided to create a private, nonprofit corporation financed by contributions from members. It provides complete coverage for this type of accidents and develops prevention programs that reduce their occurrence. The area of action of this association has expanded to such an extent that today it operates clinics, laboratories, research and technical development institutes, as well as training centers. ACHS has a board of directors made up of six members, three of whom represent businesses that form part of the network and three who represent groups of workers from these firms. The principal role of this board, which meets once a month, is to assure good

management of the institution and respect for the interests of employers and workers alike.

The above analysis of the structures of the organizations studied permits the identification of a variety of modes of work, each with specific characteristics and with the potential necessary to promote the efficient management of social enterprises. The ideas proposed by Lawrence and Lorsch turn out to be applicable to both for-profit and nonprofit organizations. The challenge for the two types of organizations is to adopt a structure that is tailored to their own needs or "custom-made," and which transforms its characteristics in parallel with the evolution of the organization's strategy. Thus organizational structure should enable the achievement of institutional objectives and be sufficiently flexible and dynamic to respond to changes that originate in its milieu.

Though for-profit and nonprofit organizations face different sets of issues, a constant task for both types of organizations should be the search for organizational forms that are most successful as platforms that effectively distribute work and that, at the same time, permit the formation of human resources that are well aligned with organizational social values.

While businesses need to know how to resolve tensions that sometimes result from efforts to meet both economic and social objectives and also need to strengthen their competencies in the social management of projects, CSOs need to contend with another type of tension: the kind that develops between the technical team and the administrative team as a result of the differing ways they approach the same issue. In any case, equilibrium between social performance and economic performance is desirable in this type of organization to assure the sustainability of its institutional project.

Finally, while the generation of alliances with other agents appears to be desirable for both types of organizations, joint work between firms and nonprofit organizations seems to generate valuable complementarities. For this reason, the creation of work networks is an attractive alternative for the achievement of more effective action and demonstrates the need to design operational and management mechanisms that enhance the contributions of each of the members of the association.

Work Flows That Promote the Effectiveness of Social Enterprises

As we have seen, several factors need to be analyzed before defining the most adequate organizational structure for each organization. In addition, in order to achieve the dynamism and flexibility required in this structure so that the organization can adapt to changing situations, it is necessary to

design its operating mechanisms, that is, the corresponding coordination mechanisms, work flows, and decision-making systems. These forms of operation are conditioned by various factors, including the leadership style of managers, the principal characteristics of the organizational culture, and the organizational structure adopted. In seeking to identify the most appropriate work flows for each organizational reality, we find various possibilities. Organizations created recently and that have less complex organizational structures can adopt work systems that are more centralized because interrelations between their members are simpler and more natural. Organizations with varied and differentiated social enterprises may require a higher level of decentralization of decision-making, making use of more autonomous work teams to achieve their objectives.

When the organization interacts with other entities, it must face the challenge of achieving coordinated and effective work. This will lead it to establish some other mechanisms that assure the efficient performance of social enterprises. In Figure 5.3 below, we identify four modalities of operation that correspond to a combination of characteristics of work flows. The level of centralization or decentralization in management of decision-making is presented on the horizontal axis. The vertical axis illustrates the operation of the organization's human resources, which respond to a mode of work that has few links to other organizations or to work flows designed for constant interaction with external entities.

In the first quadrant, we include organizations with highly integrated processes within the organization; that is, they require low levels of interaction with other organizations, and therefore work flows are designed to function internally. In addition, the management style is highly centralized. This type of organization, one very common some decades ago, is characterized by the prime importance of a pyramidal structure and hierarchy. The right upper quadrant represents organizations that have low levels of interaction with other entities in their operative processes, but that nevertheless have decentralized functions inside the organization through a more horizontal and participative management style. The lower left quadrant represents organizations that extend their radius of action by working with other entities and that promote the creation of alliances. In many cases, they decentralize their activities through branches, regional headquarters, subsidiaries, representatives, strategic partners, and so on. In this case, the organization requires work flows that permit the systematization of operations as a group while maintaining the leading role of the central organization in decision-making. Finally, in the fourth type of organization, illustrated in the lower right quadrant, work is done in a network.

Figure 5.3
Workflows as Energizers of Organizational Structures

A. Centralized processes   C. Association of organizations
B. Work based on teams   D. Network of organizations
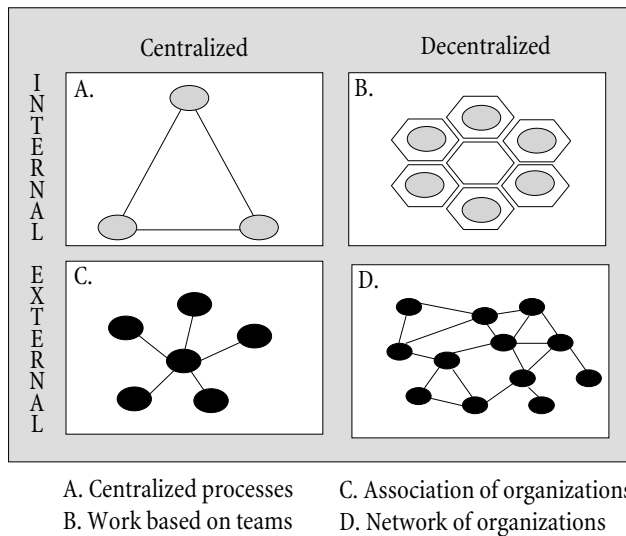
Work flows must be designed to coordinate among various organizations that have a similar weight in decision-making and with modes of joint and consensual work.

In relation to levels of centralization or decentralization of management, this research has identified firms and CSOs that, in the majority of cases, prefer to work through units or work teams that are familiar with the issues of their social enterprises, that is, they employ a more participative style. This may occur for one of two reasons: either because these areas or teams interact in a more direct way with the beneficiaries, or because the firms' social enterprises bear a certain relationship to the strategic objectives inherent in the operative work of the organization.

The analysis of the interrelationship between the organizations and their environment also showed that the majority have to deal with diverse stakeholders when they work with their portfolio of social enterprises. As a result, most have developed work mechanisms that differ from those in the upper left quadrant in Figure 5.3, which portrays an organization that is more internally oriented and has more centralized power structures.

The study identified several characteristics of cases in which the relations between managers and human resources and between the firm and its environment promoted the effectiveness of social enterprises.

An adequate combination of explicit policies and experts in each field to energize work flows. Explicitly established policies and processes in combination with professional experts in all areas of action in social enterprises facilitate work flows. As we have said, most firms structure their processes according to the stakeholders toward whom their social enterprises are directed and utilize work groups made up of specialists in the appropriate areas. The technical expertise of these specialists substitutes for whatever deficiencies there may be in organizational policies, though our research also suggests that the organizations with the most experience in social enterprises have progressively developed more explicit policies.

Hocol, the Colombian oil company, considers itself a flexible and versatile organization because it has an organizational structure based on work teams created in line with the specialties of its members and the projects that it intends to implement. The wide variety of specialists in its projects assures a rich and multi-faceted vision of social management. In the case of CANTV, the Venezuelan telecommunications company, social enterprises are carried out by units that are already part of the firm. Its Fondo Social is coordinated by the Corporate Division of Institutional Relations, while the Super@aulas project is led by the unit of Businesses and Institutions, which reports directly to the executive vice-presidency of CANTV. This allows social enterprises to be managed by the firm's already existing coordination and work mechanisms. The Fondo Social uses technical personnel from the Institutional Relations division, supplementing them with the support of two external advisors who are specialists in social issues.

Effective linking mechanisms between groups of organizations that work together and between areas within the organization. In the case of business foundations, one effective practice is to transfer the firm's work systems, which have already been tested and tried, to the foundation. Although in these institutions group cohesion is achieved primarily as a result of shared values, it is often difficult to maintain the same links with all members of the firm. For this reason, a special effort needs to be made to bring all these members closer so as to commit the whole organization to social enterprises. It is the role of the executive council of the firm's foundation, which generally includes representatives of the firm or its owners, to establish links between the two institutions. This is the case in the Fundación Acindar, in which the principal link between the foundation and the firm is through the direct participation in the running of the foundation of the family that owns the company, along with several of the firm's managers.

The principal challenges related to linking mechanisms are associated with the need to decentralize the management of some of the areas of the CSO, especially those responsible for large-scale programs or productive units that generate income.[7] Such extension of the organizational structure and greater diversity and complexity in its work require adequately planned communication and coordination mechanisms, because this is the only way to avoid juxtaposition and/or disarticulation of efforts and the creation of small units that fail to align with the objectives of the organization. INBio, a Costa Rican institution specialized in the conservation of biodiversity, created "strategic action units," which have a more decentralized and autonomous management, and which are linked to the organization's principal programs and supported by a platform of central services required for their good performance. Although this move does not constitute complete decentralization, many organizations follow this pattern in in order to optimize the use of administrative resources, which are shared among various projects or programs.

The same issue is relevant when we analyze networks made up of different organizations that engage in joint social enterprises. In this context, one healthy practice is to design mechanisms that permit cross-learning and strict coordination among the different links. The diverse organizations created and promoted by C.A. Ron Santa Teresa to carry out activities in the surrounding community are one example. The firm transferred the knowledge, abilities, and management tools it had developed in running its business to these organizations. The central characteristic of this approach consists in putting special emphasis on the creation of independent groups to manage programs promoted by the organization so that the new entities become self-managing. The firm also seeks to construct a shared vision in the municipalities where it carries out its programs, promoting activities in which the beneficiary population participates and eventually adopts them as their own. Finally, line executives are designated to supervise the projects promoted, acting not only as supervisors but also as trainers, since they transfer their experiences in the best modes of work.

Social objectives in strategic planning. Issues related to management and decision-making are not always included in strategic planning because the concept of corporate social responsibility is not uniform in for-profit organizations. In the sample of organizations studied, those that demonstrated the best performance aligned social enterprises with well-defined and monitored strategic objectives, thereby creating a closer relation

between the generation of social value and economic value. Usually these organizations have clearly defined principles and values related to social responsibility and the value of human resources in their organizational principles and values.

Coexistence of formal management process with flexible structures. Careful analysis of the particular coordination mechanisms and modes of work in the CSOs studied reveals that direct supervision and mutual adaptation are usually the primary mechanisms of coordination. While shared values are undoubtedly a cohesive factor and orient the collective efforts of the work team, the effectiveness of the work of the leader is improved through formal processes of strategic planning. One advantage of these types of organizations is the coexistence of formal processes with more organic management structures, that is, flexible structures that adapt themselves to new demands on the organization and its environment and that use teamwork to maintain the dynamism required in management.

GOB, an institution that works on environmental issues on the Balearic Islands, has not formalized its planning systems even though it is a complex organization. Instead, it acts through representatives on each island. This could be a liability but it has turned out well; GOB employs constellations or work groups to prepare proposals for areas of action and demonstrates a high level of cohesion inside the organization. It has also incorporated various work commissions as part of its formal structure. These commissions play various roles and include subsets of organizational members. The most important examples are commissions charged with the functions of programming and executing activities (the president of the organization and a group of workers), tracking and monitoring functions (members of the board of directors), and functions of coordination with the workers (a group of managers). In addition, there are some commissions which research specific issues (made up of specialized personnel) and a set of advisory commissions on policy issues and environmental education (made up of individuals chosen by board of directors because of their knowledge of the issues involved).

In the case of Crear Vale la Pena, there is a high level of centralization of decision-making, even when the members of the organization are consulted about their opinions. The mode of work of the organization consists of division into programs and services as well as ad-hoc work groups called "thematic commissions," which cut across the territorial logic of its structure and permit a more effective flow of work among its members. Crear Vale la Pena promotes the creation of community cultural centers by

geographical zones which organize art education workshops. To articulate its actions in each one of these centers it employs the "thematic commissions," made up of members of the three cultural centers that currently exist. These groups share experiences and practices in subjects such as artistic production, infrastructure, social organization, development of resources, and communication. These commissions become coordination and communication bodies and link the general activity of the institution with the particular strategy of each center. To assure that thematic commission members work effectively, they are trained and monitored by volunteers who are professionals and by the members of the Advisory Council of the institution.

Diverse planning, coordination, and decision-making mechanisms as well as the design of adequate work flows give life to the organizational structure. The better the definition of these components of management, the more support will be given to the organizational structure, facilitating efficient performance in social enterprises. It is worth pointing out that the mechanisms mentioned are valid for the management of any type of organization, whether it is for-profit or nonprofit. Our discussion of specific cases of both types of organizations in the sample, which brings out some of their particular characteristics, enriches our understanding of each of these groups.

Lessons on the Generation of Value through the Design of the Organizational Structure

The development of high-performance social enterprises requires programs that are well conceived in terms of their importance and contents, but it is also advisable that they be accompanied by a management platform that facilitates their execution and that makes them viable in the long run.

One of the principal components that the organizational structures have tried to preserve is the capability of producing synergies in the generation of social value and economic value. Our research suggests that there is no single optimal organizational structure that permits the generation of these synergies. In the case of the businesses studied, the three modalities above have allowed the organizations to reconcile commercial and social objectives, though each one sets its own challenges in terms of management systems. In the case of CSOs, the available evidence demonstrates the existence of significant similarities in the type of organization adopted. In effect, the structure oriented to the management of programs or projects provides more flexibility for social work; nevertheless, it requires formal planning and coordination to achieve operative efficiency.

Some of the key factors that the organizations studied have kept in mind when designing their work systems and division of tasks are the following:

- *Adaptation*. In the same way that changes in the environment require modification or rethinking of organizational strategies, this process has led organizations continually to rethink the way they design their organizational structure and/or their systems of work. The relative success in their social enterprises does not seem to have been conditioned exclusively by the organizational structure that sustains their execution. Nevertheless, we presume that a system of work that is not very flexible and highly bureaucratized or, to the contrary, is characterized by poorly defined, chaotic, or improvised responsibilities could have endangered the best conceived enterprises because of errors in their execution.

- *Alignment between strategy and structure*. In the organizations analyzed, the alignment of social enterprises with organizational strategy seems to be a guiding principle that facilitates coordinated and effective work along the whole organizational structure. If the responsibility for carrying out social enterprises in certain cases has been distributed along the whole organizational structure through its line and/or support departments (it is evident that in CSOs, because of their eminently social character, this function belongs to line departments), there is a clear necessity to have tasks assigned in an explicit manner. Similarly, it is necessary to define objectives, deadlines, and actions in the framework of strategic planning processes that include social enterprises, so that tasks do not become disarticulated.

- *Decentralization*. In many of the organizations in the sample, decentralization becomes a key factor given that complex social enterprises generally require organizational structures that are more decentralized in order to operate with greater agility and response capacity. Moreover, in some cases it is necessary to create networks of organizations to work in alliances or supra-organizations in which the strengths of the organizations that plan to work together complement each other. The experiences of these organizations demonstrate, however, that when execution functions are decentralized without fine-tuning coordination mechanisms, the organization runs the risk that its enterprises will have heterogeneous performance and will not always be well understood by the rest of the organization or partner organizations that

work together. For this reason, the organizations studied have endeavored to insert the implementation of these enterprises into the organization's systems for setting objectives and monitoring results, so that tangible evidence is available about what has been achieved and clarify whether corrective measures are needed, or even if an enterprise should be discontinued.

- ***Relations with stakeholders.*** The relationship of the organization with its environment is strongly influenced by the organizational structure it adopts for the management of social enterprises. This structure can facilitate or obstruct the relations of the firm with its various stakeholders. A multiplicity of visible faces of the organization working on apparently similar issues can lead to the creation of communication problems with diverse stakeholders and unnecessary erosion in relations with these social agents. Organizations that have adequately dealt with this problem have made sure that each level involved in the management of social enterprises clearly understands its role in the process and the policies that guide social enterprise activities. In this manner, they have sought to reduce points of conflict and have been able to enhance the generation of synergies through shared and coordinated action.

- ***The nexus between the technical and the administrative***. The analysis of the cases of CSOs indicates that close work between technical units that work on social projects and administrative units is essential because both need to supplement each other's efforts and competencies in a process of joint learning. When this is achieved, both will understand the complementary role that each plays in the process of generation of value. Institutional strategy and processes that permit the creation and execution of social enterprises have been converted into potent mechanisms for integrating experts with different backgrounds in such a way that when they take part in interdisciplinary teams which share joint responsibility for the achievement of goals for projects or programs, they adopt a shared work dynamic.

Notes

1. Henry Mintzberg, *La estructuración de las organizaciones* (Barcelona: Editorial Ariel S.A., 1984), 26.

2. Ibid.

3. Chandler, *Strategy and Structure: Chapters in the History of the Industrial Enterprise*; Raymond E. Miles and Charles C. Snow, *Organizational Strategy, Structure, and Process, Stanford Business Classics* (Stanford, Calif.: Stanford University Press, 2003), Mintzberg and Quinn, *The Strategy Process: Concepts, Contexts, Cases.*

4. Nitin Nohria, William Joyce, and Bruce Roberson, "What Really Works," *Harvard Business Review* (July 2003).

5. This alignment is obvious in the case of CSOs, which by their very nature center their strategic objectives on social issues.

6. This idea reinforces the conclusions of Harvard researchers Paul Lawrence and Jay Lorsch, who suggest that different types of organizations are needed for different markets and levels of technology and that the type of organizational structure adopted will be conditioned by the stability and complexity of the surrounding environment. Gareth Morgan, who cites their work and with whom we agree, observes that, as a result, "there is no one optimal mode of organization." Translated from the Spanish edition: Gareth Morgan, *Imágenes de la organización* (Mexico DF: Ediciones Alfaomega, 1991), 38.

7. More information on the role of units that generate income in nongovernmental organizations can be found in the chapter on financing.

6

Managing Human Resources in Social Enterprise

One of the greatest challenges facing organizations that engage in social enterprises is building their human resources. Work with diverse stakeholders requires personal capacities, abilities, and talents that need to be developed over time so that as the organization acquires experience, these skills are transferred to all employees and become organizational capacities.

Our research on businesses and CSOs demonstrates that organizations that make good use of contributions from personnel and establish long-term relationships with their employees achieve a high level of performance in the management of their human resources. To the extent that the capacities of its personnel are directed towards the development of effective social enterprises, the organization will reinforce the creation of social and economic value.

This chapter explores the central components of a human resources system that promotes the development of social enterprises using a parallel analysis of the way that businesses and CSOs approach this issue. Our study identified some of the key elements that allow businesses and CSOs to form effective teams for the management of social enterprises. While managerial concerns of for-profit and nonprofit organizations are similar, their challenges and the ways they are handled in practice are different and varied in each case. Businesses are more accustomed to developing human resources management policies that generate economic results so they demonstrate significant achievements in this area. Their principal challenge lies in the development of individual competencies related to the management of social issues. In contrast, the CSOs generally have considerable experience in dealing with social issues but often experience more difficulty in managing their resources and generating the economic value required for organizational sustainability. The two types of organizations have developed certain capacities unequally and can thus learn from each other in order to achieve effective and well-managed human resources.

The central questions addressed here are: how do businesses and CSOs develop human resources with high performance in the management of

their social enterprises? How do they differ in this respect, and what can they each learn from each other in order to strengthen the generation of value?

The Central Components of a Human Resources Management System

Recent literature on human resources stresses the need to improve the alignment of the human resources management function with organizational strategy because the individuals that make up an organization generate important intangibles. The most recent studies on strategy and human resources have begun to refer to this group of individuals as human capital, understanding that this concept implies a direct link to the strategic assets of the organization.

A strategic asset is the organization's set of resources and specialized capacities that cannot be duplicated, appropriated, or sold without difficulty and that therefore constitutes an essential part of the process of creating value.[1] From this perspective, human resources are considered a source of one type of intangible organizational capital, which unites the value of the knowledge, abilities, and capabilities of individuals and is utilized by the organization to fulfill its objectives. Management of this resource entails a constant development of this knowledge and experience in the workforce[2] to improve the productivity and effectiveness of the organization.[3]

Our sample organizations have begun to pay special attention to the design of human resources management strategies that take into account the expectations of employees and other interest groups with whom they interact. An organization that develops this type of broad approach to the creation of social value will be more likely to obtain sustainable advantages.[4]

Figure 6.1 illustrates three general aspects of human resources management:

- *Processes of recruitment, retention and development* that lead to the creation of a team skilled in the development of social enterprises.

- *The development of skills:* bringing together individuals who have management competencies with people whose competencies relate to social action.

- *Organizational mechanisms that promote organizational learning* from social enterprise, which reinforce individual and collective awareness of the generation of social and economic value.

Figure 6.1
Approaching Human Resources Management from
Three Different Perspectives
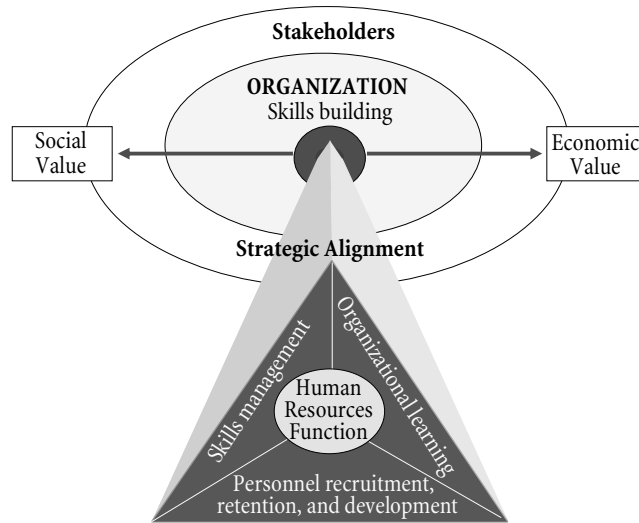
Personnel Recruitment, Retention, and Development

A human resources management system develops processes that optimize
the quality of the contributions of individuals while they remain with the
organization, and, at the same time, promote their personal development
and professional enrichment. These processes start with the search on the
labor market for individuals with the right profile, and end when the
employee leaves the organization.

The businesses and CSOs studied show good practices in this respect.
Some of the principal factors that influence the performance of organiza-
tions in this area of organizational management are discussed below.

The Case of Businesses

Human beings at the center of social strategy. One of the pillars of effec-
tive human resources management is the development of high performance
practices in order to construct and maintain an inventory of talented
human capital.[5] To achieve coherence among organizational objectives
related to the creation of social value, it is indispensable for the organization
to act as a good employer. It would be a contradiction to have a business
with high social ideals that did not know how to value the individual with
whom it works. That is why firms that demonstrate good performance in

social management usually display a good labor climate and employees who strongly identify with the organizational mission.

Cases such as Ingenios Pantaleón, an important sugar company in Guatemala, illustrate favorable results generated by individual-centered management. According to a study of the firm's organizational climate carried out in 2003, the personnel feels comfortable and content with the company and expresses its pride in belonging to the organization. In carrying out its social enterprises, the company is particularly committed to improving the quality of life of the families of its workers as well as of the community at large through training programs. In addition, it keeps its employees longer than its competitors, which reduces recruitment and training costs and leads to improved accumulation of specialized knowledge. The company estimates that between 85 and 90 percent of its seasonal workers return each year, which translates into lower training costs for Pantaleón. When a young company executive, a recent graduate of the Harvard Business School, was asked about his reasons for choosing to join this organization, he answered "because of its values and its social enterprises."

Recruitment based on values. According to the evidence gathered in this research, one of the principal criteria used to define the profiles of employees who will join the team in charge of social enterprises is the level of correspondence between the values promoted by the organization and the personal values of the candidate. This practice reduces job rotation and improves the bonds between the worker and the company. The managers of the Pantaleón sugar company state that "the principal filter for hiring is the search for personnel that can adapt to the organizational culture. In some cases, while we look for personnel with experience, moral values are always kept in mind."

One noteworthy case that illustrates this approach is the Spanish courier service company MRW. The management of this company reports that one of the focal points of their personnel selection processes is an analysis of the personal values of candidates and their compatibility with its organizational values. One of the firm's representatives clearly expressed this idea: "the building of corporate pride has to start at the very moment of hiring." Indeed, the firm's decision to emphasize a specific personal values profile when contracting workers has led it to favor internal recruitment when filling a vacant position. When a suitable internal candidate is not found, the next priority is given to groups of disadvantaged people. This relatively rare business practice is referred to as "positive discrimination." It has recently become a third option in the process of recruitment of candidates on the labor market, and consists of giving special consideration to candidates

recommended by personnel within the organization who have family or other personal ties with the potential candidates. Although this practice may sound problematic to some, the company has found on an empirical basis that references can be a source of trustable individuals with personal values that are highly consistent with those of the organization. As a result of these practices, by 2005 between 15 and 25 percent of the company's payroll were individuals with some type of handicap, and levels of personnel turnover were close to zero percent.

Development of know-how. Businesses often devote attention to the development of capacities related to the management of social enterprises. People who assume a leadership role in these enterprises must have a background in administrative project management as well as experience in dealing with social issues. In the case of for-profit organizations, their business focus leads them to make use of available permanent staff members to support their social enterprises.

One constant we have observed is that the team charged with the management of social enterprises in businesses applies the normal administrative practices of the organization and in this way capitalizes on existing organizational knowledge. This occurs even when the team in question is part of an organization distinct from the business itself. Nevertheless, these individuals do not always have experience with social action, and the firm may wish to invest significantly in training and awareness programs that generate the required capacities.

Two cases illustrate these points. The first is the Peruvian business Cementos Lima, which decided to assign the general manger of one of its coal subsidiaries to be the general manager of the Asociación Atocongo, the social division of the organization. Although the executive did not have experience with social programs, the company decided that his management skills and his identification with the company were fundamental values in his profile. Currently, the manager of the Asociación Atocongo participates in training programs with the division managers of the cement company even though he works for an independent entity. In addition, he receives constant training in subjects related to social enterprises. His improved knowledge of the subject has made him an expert in this field within Cementos Lima and his skills are now being passed on to other executives within the company.

Another relevant case is that of the CANTV company, a leading provider of communications services in Venezuela. Projects that receive financial support from the Social Fund of the company are evaluated and monitored by a team that includes both company personnel and external

advisers who have recognized experience and competence in the management of social projects. The concern of the firm's managers to keep the management of social enterprises within already existing coordination and work mechanisms led the organization to maintain the Social Fund under the supervision of the Corporate Management of Institutional Relations Division, and the Super@aulas program under the Business and Institutions unit. CANTV began to strengthen its corps of volunteers by offering the necessary training so that individuals could carry out their functions in their chosen field of work. This measure was accompanied by incentives such as public recognition and gifts of company stocks in return for work on social enterprises.

Human resources development as a retention tool. Mechanisms for the retention of personnel include a range of actions implemented by a firm to assure that its workers are loyal to the organization and willing to maintain a relationship with it that lasts several years. In the sample of firms analyzed, most organizations with an integrated approach to human resources management have established certain development policies. The case of the Colombian company Alpina, a producer of milk products, demonstrates how this is implemented. Organizational climate and employee quality-of-life issues are dealt with by its Organizational Development division. Measurement of organizational climate consists of an integrated evaluation of human resources management in the company. A number of areas are monitored including teamwork and worker participation, the relationship between supervisors and subordinates, recognition for tasks accomplished, and the work motivation of personnel. The company is also concerned with another management issue: the degree to which labor activity allows for equilibrium between the professional and personal lives of individuals, including matters such as family welfare and spiritual health.

The Spanish company MRW also has an integrated human resources policy. In addition to the recruitment policies described above, it has put into practice a number of steps directed at personnel development. Those that stand out include compensation levels that are over market average and bonuses contingent on the achievement of goals. The firm also promotes continual training of its employees, providing partial subsidies, although priority is given to learning in the workplace, where favorable conditions and the support of fellow employees provide more effective results. Finally, this company's integrated approach to human resources management includes a policy to promote compatibility between personal and work lives, permitting flexible work schedules at the request of

workers and encouraging workers to leave work on time after their daily routine.

The literature suggests that these types of practices strengthen the relationship between employees and the company, but the businesses we studied have not yet measured the extent to which corporate objectives and social actions have strengthened the commitment of the individual to the organization or contributed to greater retention of personnel.

Emphasis on results. Although businesses have a strong inclination to measure results, only some in the sample have incorporated the achievement of social objectives into their evaluation of personnel performance in their social enterprises. According to our analysis, about 60 percent of the firms in our sample use indicators in personnel performance evaluation, but only 30 percent of all the firms explicitly include social objectives for setting and measuring individual objectives. Some interesting cases are described below.

In the case of Ingenios Pantaleón, the firm succeeded in aligning its strategic objectives with the performance of its workers, obtaining verifiable results. According to company management, "the most dramatic change was achieved in setting goals and objectives, the starting point for performance evaluation. Strategies, measurements, and indicators were established which permitted better structuring of the social goals of the company and the goals of each worker, with a clearer direction that should converge and align with corporate strategy."

Other organizations, such as the Argentine Arcor Foundation—created by a leading candy manufacturer by the same name—encourage the identification of personnel with the Foundation's cause and award bonuses for good performance. These incentives are awarded after a process of performance evaluation, which also serves as an input for the preparation of personnel development plans.

In firms such as the Mexican cement producer Cemex, for which social enterprises are an important aspect of its "sustainable operation" strategy, priority is given to the recruitment, retention, and development of a management team that is diverse, experienced, motivated, and competent in its areas of specialization. Cemex continually encourages its executives to revise processes and practices, including those relating to corporate social responsibility. To this end, it uses monitoring instruments such as a balanced scorecard that sets objectives, expected results, and indicators.

Development of workforce through community development. Some business organizations regard the development of the communities in

which they are located as an opportunity to improve the quality of life of the families of their current and potential future workers. Our research indicates that such policies succeed in generating high levels of worker commitment to the company and facilitate the hiring of skilled labor from neighboring areas.

The Colombian oil company Hocol operates in areas that are often neglected by the government, and understands that the potential for oil development is based on long-term good relations with the community. For this reason, Hocol prepares all those who participate in its oil drilling projects to carry out their responsibilities in harmony with the environment, and inculcates an understanding of the social responsibilities of the company and its contractors. Although it is the contractors who hire locally, the company monitors the hiring process to assure that it is carried out in consultation with community committees so that priority is given to the use of the local labor force. At the same time, the company has a series of projects designed to strengthen the productive capacities of the community in order to make it self-sufficient. Other petroleum companies recognize that Hocol has established itself firmly in the areas where it operates so they seek it out for strategic alliances. Hocol's practices create not only social value in the areas where the company operates, but also economic value for the population and for the company.

The Case of CSOs

A number of the CSOs studied recruit new staff members only gradually. Some organizations turn to the community served as a source for personnel recruitment. The primary advantage of this approach is that the individuals recruited share the community's ways of thinking and lifestyle, even though they may require training in the technical aspects of the work they will be doing.

In Crear Vale la Pena, an Argentine organization that promotes art, neighborhood coordinators are charged with motivating residents to attend programs organized by the institution. These coordinators are part of the permanent structure of the organization and are paid for their work. Although they were initially recruited as volunteers from the community, they became part of the permanent staff because of their identification with the organization's programs.

Another similar case is the Fundación Pro Vivienda Social in Argentina. Its personnel recruitment process is carried out according to the needs of particular projects. Though at first the organization hired individuals with experience in previous activities of the Foundation, they gradually began

to orient their recruitment activities to technical schools. Recently, this organization also began to utilize consultants and advisers for complex professional assignments.

An analysis of the sample of CSOs indicates that they have fewer training programs than the businesses studied. One of the reasons for this is that CSOs need to allocate more of their resources to social enterprises, so less is available for personnel training. This financial reason could explain why there are few formal personnel training and development programs in these organizations and why CSOs give more importance to fieldwork experience. Two cases that illustrate these policies are discussed below. While there are other similar cases, these are representative of good practices in this area of human resources management.

At the Instituto Nacional de Biodiversidad (INBio) in Costa Rica, key individuals are in charge of the development of the abilities of personnel. Because this institution specializes in biodiversity issues, it needs to develop specific technical capacities in their personnel in order to provide a service that adequately satisfies the demands it receives. After a diagnosis of the existing capacities of the organization, the group members detected aspects of their systems of human resource management that needed improvement. Consequently, they developed an integrated system of human resources management that included diagnostics of their performance in the execution of social enterprises, which were then used to design plans for the development of managerial abilities such as interpersonal communication, conflict resolution, negotiation, and critical and creative thinking. The Fundación Abrinq, a Brazilian CSO that promotes the defense of the rights of children and adolescents, believes that it is essential that its experts receive the necessary preparation to carry out their functions because social action constantly generates professional challenges that can only be met through adequate training. Once professionals understand the basic knowledge of their functions, they are in a position to prepare proposals and implement innovations that other organizations often have not tried.

Innovative tools to increase retention. In the area of personnel retention policies, some organizations see identification with a cause as a mechanism of retention. Other, more innovative organizations implement economic incentives in order to increase personnel loyalty and productivity. This is the case of the Fundación del Empresariado Chihuahuense in Mexico, whose purpose is the improvement of living conditions in the city of Chihuahua. This organization uses a system of bonuses based on performance evaluation and achievement of goals. INBio also uses economic

incentives, but applies its performance evaluation system not only to individuals but, most importantly, to teams. This evaluation provides the organization with information to use in the application of rewards based on factors such as performance, dedication, creativity, and innovation.

A frequent predicament of CSOs is that very often they cannot compensate their qualified staff members at market levels. Representatives of internationally recognized CSOs agree that until the problem of remuneration is satisfactorily resolved, reinforcement of commitment to their cause will continue to be the backbone of their personnel retention strategy. Thus organizations such as Fe y Alegría have developed programs that aim at reinforcing the federation's mystique and esprit de corps, with the explicit goal of increasing staff identification with the cause and loyalty to the organization.

The businesses and CSOs studied display a variety of interesting human resources management practices, but the evidence shows that an integrated vision is needed for the design of a human resources management system. In effect, disequilibrium in the performance of any of the human resources management processes affects the final result. In the sample of for-profit organizations and CSOs, the outstanding organizations have diagnosed weaknesses in the management of their human resources and developed integrated plans that include the principal human resources management processes. Those organizations that apply this systematic approach in the area of social action report satisfaction with the efficacy of their management specialists and personnel. This finding is congruent with the literature on the subject, which emphasizes the importance of generating management systems that are coherent and aligned with strategies.

Organizational Competencies and Individual Competencies[6]

The management of knowledge is now decisive in running organizations. The personnel administration function, in the traditional sense of the concept, has been enriched by knowledge management and the pursuit of personnel competencies that support the effective organizational competencies. In the words of Jim Collins, "the executives who initiated transformations of good or outstanding [organizations] did not start by deciding where to drive the bus so that they could later find those who would take it there. What they did first was to get competent people on board . . . .and only then did they think where to go."[7]

The Case of Businesses

Competencies that reinforce social action and administrative management. Reliance on talented individuals to manage social enterprises has become a priority. In the sample studied, both for-profit and nonprofit organizations that run successful social enterprises have been able to combine administrative competencies with competencies in social action. This finding suggests that the absence of one of these two components affects good management and planned objectives in the long term.

The case of the Argentine company Arcor, which engages in social action through its foundation, illustrates an effective way of setting up a socially and economically competent management. Starting in 1995, the Arcor Foundation underwent a process of professionalization guided by its vision of becoming an outstanding model of quality social action in Latin America. To achieve this goal, it hired an organizational leader who was a professional expert in the management of social actions by businesses. At the same time, it brought together a group of specialists in the management of social actions (social workers and experts in education). To supplement social action competencies with those required in administration, the Foundation brought in professionals from the administrative area of the company—people from the project management division and specialists in communications and the press.

Another Argentine example illustrates the same point. The Fundación Acindar was created by the company of the same name, a steel products manufacturer. A nucleus of individuals runs the foundation and the rest of the work is done by external advisers who specialize in the fields of education and the sciences and arts related to the steel industry. To obtain advice on certain administrative functions and compensate for its lack of knowledge of some processes in this area, the Foundation relies on the company that created it. Note, however, that the use of personnel from outside the organization could make the execution of social enterprises more difficult to control, and in certain circumstances could jeopardize the results as well. In addition, integrating these professionals with the permanent staff of the organization could present difficulties because these outsiders would be likely to have their own values and ways of working. These issues seem to have been handled well by the Foundation, which has been in existence for more than four decades in Argentina.

Development of teams specialized in social action. When businesses contract personnel specialized in social enterprises, these specialists work in the areas of their expertise: human resources professionals work in

enterprises oriented towards staff members; professional teachers in enterprises with an educational component; professionals with scientific specialties in projects related to environmental quality or conservation of flora and fauna; experts in technology in the handling of information; and social workers and other social science professionals in community development projects.

This diversity of professionals may pose a problem for the management of human resources because it requires from the managers an understanding of the work of each specialist. Moreover, these specialists are not always associated with the core business and have different educational backgrounds and specific requirements to do their work effectively. For example, about 50 percent of the firms studied use experts who are regular staff members or were contracted as advisers to work on diverse social issues for the organization. The most suitable form of organizational structure is the matrix structure in which professionals are grouped by programs or projects and are coordinated by the person responsible or the head of the team.

Volunteers as multipliers. The management of teams of volunteers has distinct characteristics depending on whether the organization is for-profit or nonprofit. In the case of businesses, volunteers generally are members of the organization and sometimes family members who participate on their own initiative in the company's social enterprises. In the sample of businesses analyzed, the formation of a corps of volunteers is still in the embryonic stage. Nevertheless, in the businesses that do employ volunteers, we found some smart practices worthy of analysis.

In these organizations, the area responsible for the administrative coordination of volunteers carries out company-wide awareness campaigns with the objective of creating enthusiasm among its workers. The firm generally assigns a budget for the volunteer program in the amount proposed by the volunteers. The company facilitates volunteer coordination and in some cases provides equipment and basic work materials. Although the activities of the volunteers usually take place outside normal working hours, the company takes credit for their achievements and contributions and seeks public recognition for them. In businesses that currently have a team of volunteers, top management participates in their activities, stepping outside of the hierarchical positions they normally occupy. For this reason, those who exercise leadership of volunteers tend to be enthusiastic members of the group and natural informal leaders who assume this role spontaneously or are elected by their fellow volunteers.

The Abril Group, an important Brazilian communications group, maintains two volunteer programs that are closely tied in with their principal line of business of magazine publishing. These programs involve its employees in the editing of two publications, an activity that clearly illustrates the way that an organization maintains a close link between its social actions (at its Fundação Civita) and its business personnel. Although volunteer activities are supplemental to regular job duties, volunteering reinforces and develops the expert talent of the participants. It is important to note that this firm's volunteer activities originated through the initiatives of its own employees and continue thanks to the enthusiasm of the team of volunteers and the willingness of the business to provide them with support to carry out their work.

The Peruvian Antamina mining company uses a similar approach. It believes in involving its workers in volunteer work as a way of promoting a culture of social responsibility that is sensitive to the problems of nearby communities. Originally, volunteer work started in a somewhat haphazard manner but the company is gradually trying to improve its organization. Considering the current difficulties of mining companies in their relationships with neighboring communities, integration between company personnel and residents promotes coexistence in the local area and leads to improved identification with the culture of local residents.

The Case of CSOs

Diversity of roles. One of the principal challenges confronting CSOs is the great diversity of roles and individuals that interact in these institutions. Most of these organizations are made up of partners, teams of directors, technical teams with different specializations, administrative personnel, external advisers, and volunteers—all with varied academic backgrounds and differing levels of experience and dedication to the organization. This creates the need to formalize the role of each component in order to make the most rational and orderly use of human resources.

GOB Menorca, which is engaged in ornithological research and the defense of the environment on the Spanish island of Minorca, reflects this diversity in its staff. The Board of Directors is made up of representatives of diverse sectors on the island and does not possess an in-depth understanding of the operational work of the organization: its role is primarily oriented towards institutional representation. The technical team is well versed in the technical aspects of the organization's programs and also plays some representational roles in meetings with experts. In practical

terms, this means that this team has a great deal of work to do. Its financial limitations did not permit the CSO to enlarge its staff. Nevertheless, according to the employees themselves, the effective leadership exercised by the general coordinator and by successive presidents of the board has generated "a very strong group of people, with a lot of experience and very cohesive." Both the directors and the employees of GOB Menorca recognize that the organization should formalize its human resources management processes, because it needs to define roles and prepare profiles and job descriptions so that it can improve the effectiveness of its personnel and volunteers who participate in around 36 lines of work.

The case of the Fundación Comunitaria Oaxaca in Mexico exemplifies the way that CSOs bring together solid personnel competencies to strengthen the social fabric. This organization seeks to get directors with outstanding academic qualifications who can make effective use of the knowledge gathered from community members who participate in the organization. The people responsible for social programs utilize experts who serve as external advisers in their areas of expertise. The Foundation has a directory of individuals classified according to their competencies (and not only by the disciplines in which they hold an academic degree) and can call on them when their experience is required to enrich the processes of the foundation.

Colsubsidio, a Colombian foundation, has structured its whole human resources management system on a competencies approach. It identified a set of corporate competencies that its employees should possess irrespective of their function and plus a set of competencies related to their job. It is worth mentioning that this is a large organization, with 700 positions. Its processes of personnel selection are delegated to external organizations specialized in this service and which also use a competencies approach. Its performance evaluation systems are centered on the analysis of two components: the behavior of the individual within his work group, and the extent to which the goals have been met. This emphasis on the development of competencies is supplemented by continuing mentoring to insure that the employee develops and sharpens the abilities necessary for the work assigned. From the perspective of the organization, the accomplishments achieved through this approach are evident in the improved effectiveness of their workers.

Volunteers. According to our research, participation of volunteers is more developed in the CSOs. It is desirable for this type of organization to establish an ideal profile for volunteers along with their work stations so

that the incorporation of new volunteers is in line with a proactive recruitment policy. In addition, to recruit effectively, the CSO ought to define explicit policies on volunteer participation (and exclusion). The design of policies to manage volunteers seems to help the organization avoid improvisation and to shape the role volunteers will play in the implementation of enterprises.

Organizations with a long track record such as Intermón-Oxfam are able to recruit a significant number of highly skilled volunteers who even contribute to the design of policies and social projects. The reputation and standing achieved by the organization over the years can facilitate the recruitment of talented personnel. Since 1990, this CSO has grown more than tenfold, from approximately 90 to more than 1,000 individuals who regularly work with the organization. In the first phase growth was achieved through hiring, but more later the number of volunteers increased more rapidly than that of contracted personnel, especially in its main offices and committees. It now has about 381 paid staff members and more than 1,000 volunteers. According to interviews with Intermón-Oxfam staff, the organization is dependent on this volunteer system for critical aspects of its activities. For this reason, it has developed highly structured schemes to implement its selection, training, and exiting processes.

The analysis of the experiences of CSOs in volunteer management revealed the risk that the work of volunteers becomes disconnected from the work of the CSO. The organizations with the most accumulated experience of working with volunteers promote the generation of leadership inside volunteer groups to reduce excessive dependence on the top leader of the organization. One mechanism to facilitate this goal is the integration of volunteer leaders into institutional strategic planning activities. This has the additional advantage of subjecting volunteers to regular monitoring and performance evaluation systems, which promote a culture of efficiency with the group.

In the case of CDI, a Brazilian committee that promotes the democratization of information technology, the model of change it adopted envisions the role of the CSO as an institution that persuades others to act—to mobilize individuals, provide equipment, and carry out recruitment processes so that the digital age and its benefits are available to all sectors of the population. To do its work, CDI uses volunteers who are prepared to work in training programs and in the schools that are established in each locality. Their activities generate local multiplier effects.

The job of training competent teams of volunteers and hired personnel is basically the same for businesses and CSOs. In both cases, organizations must work with people who have one of two complementary abilities: social work or administrative management. An adequate balance between these competencies permits these two types of organizations to attain the equilibrium necessary to assure effective social enterprises and long-term organizational sustainability. Disequilibrium could endanger fulfillment of the institutional mission.

Conditions for Organizational Learning

The Case of Businesses

Most of the organizations we studied have a clear understanding of the necessity of building bridges between individual knowledge and collective organizational knowledge;[8] as a result, they develop practices that favor this dynamic of continual learning in parallel. Below, we describe some of the practices found most frequently in the organizations studied.

Communication and coordination. Our research suggests that a great majority of organizations believe that the development of effective communication and coordination mechanisms is essential for the creation of a cohesive team. Most organizations combine diverse components to create effective communications and more agile decision-making systems.

In the case of the Spanish courier service company MRW, the creation of mechanisms of communication with the very large number of franchises through which it operates is a principal factor in assuring quality services. MRW uses written and electronic media to provide information about the company's achievements and promote social action. Although it cannot force its franchises to engage in social action, it uses communication mechanisms to motivate them to take on such activities on their own initiative.

One of the characteristics of MRW's communications mechanisms is that its executives prefer not to rely on written reports. From their point of view, use of regular coordination meetings avoids rumors and leads to more direct communication. This practice is supplemented by what they call "vagabonding," when employees spend a whole day visiting the different departments of the company to acquaint themselves fully with the tasks of other members of the organization. Other practices to strengthen communication inside MRW include orientation meetings for new employees and newsletters that pay special attention to the firm's achievements in the area of social action and are sent to employees, clients, suppliers, and franchisees.

Organizations that face difficult situations within their surroundings provide interesting examples of how to create communication mechanisms within the organization and with external actors. This happened in the case of Ingenios Pantaleón, a Guatemalan sugar company. Because of the nature of its operations, the company works in the countryside with a large number of workers who come from nearby communities. Therefore creating good relations with these communities becomes a strategic factor.

To reinforce these relations, Ingenios Pantaleón decided to start by strengthening its links with its workers. Then they worked on links with workers' families and, finally, with residents of nearby communities. With the support of its human relations department, the firm created improvement groups made up of individuals who contributed to the improvement of existing processes and procedures. In addition, in order to convey its corporate strategy to all levels, the firm held semi-monthly meetings to discuss progress on the activities contained in their plan, including social actions. These meetings were supplemented by communication through the Internet and an open-door policy that promoted formal and informal communication, thereby improving communication among the different levels of the firm and promoting more agile decision-making.

Documenting institutional memory. Organizations that have a large number of workers find it difficult to transmit information about social enterprises to all areas of the firm. This task is all the more complicated when businesses carry out their programs through independent institutions such as corporate foundations. In some of the cases studied, organizations reported the use of external audits so that improvements could be made in the documentation of ongoing practices.

The Argentine CSO, Arcor Foundation, sought to institutionalize the transmission of knowledge and to avoid leaving this task solely in the hands of its leaders. It introduced the practice of documenting each program, emphasizing the definition of clear goals and results obtained. In addition, Arcor the company was interested in finding out how much its workers knew about its social enterprises. To this end, it initiated an external evaluation process to measure the level of this knowledge and the image the workers had of the activities of the Foundation. As a result of this evaluation, the company decided that it was necessary to promote a better understanding of its social actions. Its communication strategy included the publication of information about these activities in the corporation's magazine, *Tiempo de Encuentro*. In addition, the firm published an information bulletin three times a year and prepared informative and motivational posters. These materials were supplemented by the publication of the

annual report of the foundation. In all these activities, the foundation utilized expert knowledge from the company's communication department.

Another Argentine CSO, the Acindar Foundation, used external auditors to evaluate the operation of its educational programs and implement improvements. As a result of that audit, the foundation began to document its teaching practices, such as diagnostics, student activities, meetings with parents, details of interviews, exams given, monitoring of student performance, attendance records, and event planning. One of the findings of the audit, which was carried out the initiative of the organization itself, was that despite previous internal impact evaluations, programs had not been evaluated through a formal process and there was no evidence to show how much company personnel knew about the impact of the social enterprises of the foundation. As a result of the audit evaluation, the organization implemented concrete improvements.

Performance measurement. Evaluation mechanisms for individual performance and efficacy in the achievement of strategic objectives generate correction plans and the subsequent improvement of social enterprises. Some organizations in the sample employ management indicators that allow them to align their social actions with strategic objectives and create continuous individual and collective improvement systems.

This is the case of the Mexican cement company Cemex, which is clearly oriented to the evaluation of management indicators through a balanced scorecard, a tool that promotes organizational learning because the evaluation process depends on the continuity or reformulation of initiatives.

Similarly, the Hocol Foundation in Colombia works with constantly monitored management indicators, which allow for periodic evaluations of the performance and efficacy of their human resources. In this case, the information obtained from the process of measurement of indicators is also utilized to identify new training and personnel development needs.

The Case of CSOs

Sharing information. Organizations that have highly complex structures owing to the variety of programs implemented need to develop communication mechanisms. In many cases, cascading of strategic planning facilitates communication as long as adequate information systems exist. If several organizations work in a network, it is helpful to have their representatives share opinions and experiences.

In the case of the Confederación Internacional Fe y Alegría, well-defined communication mechanisms had to be established given the complexity and size of the organization. The information system that was

created permits the sharing of different national plans and includes the so-called vertical encounters that flow from below to above through the various levels of the enterprise.

Corrente Viva is an organization that works with a network of CSOs in São Paulo to promote a learning flow through interactions among their members. Because its mission is oriented to the generation of competencies, its understanding of work flows is essential. In order to optimize networking, member groups designate representatives to participate in Corrente Viva. In contrast to other networks, its groups may designate more than one representative because the organization is interested in generating co-leaderships through the participation of different representatives of member CSOs. A larger number of participants per institution generates a multiplier effect within these organizations.

Mentoring. Other CSOs in the study have simple structures and were established more recently than the more complicated organizations. The effectiveness of these newer organizations is evident in their use of learning systems based on mentoring and on the personal motivation of members.

ACOSAMA, created by the residents of the El Salvadoran community of La Loma, developed a team of community members to administer their water supply system and promote the health of the inhabitants. The people who work for the CSO have the opportunity to learn about the operation and maintenance of water systems. Although this organization has an operational plan that defines clear goals and assigns responsibilities, the principal mechanism to impart learning is through mentoring of new personnel by more experienced team members. According to the participants, "the principal incentive is recognition from the community for work accomplished and learning a trade." This motivation to serve and to expand their knowledge to other zones that need their help, which is fostered by the leader of the organization, led them to create community support networks in other municipalities and spread their experience to them.

Leadership and learning. Our research suggests that the leader of a CSO exercises a significant influence on the way the organization learns. Recognition of this factor has led various organizations to look for mechanisms that allow greater decentralization of power and more participative work schemes.

In the case of GOB Menorca, the organization was so aware of this issue that, with the agreement of its leader, it started a consultancy project to analyze the strengths and weaknesses of the leader's role. This diagnosis revealed the need for better use of strategic planning tools and human resources management to strengthen the organization. The organization

also redefined some of the roles of its directors to reduce dependence on the leader, even though there was a consensus within the organization on the effective leadership of its head.

Another case that illustrates the importance of the type of leadership exercised in CSOs is the Hogar de Cristo in Peru. In this organization, the leader was the most visible face of the institution and when he faced personal attacks from some sectors of local society, the organization itself was directly affected. The crisis situations led the CSO to realize that there was a high centralization of responsibilities in the leader and to initiate a process of strategic planning that is still in its early phase.

Documenting institutional memory. The CSOs that have wide-ranging social programs require greater formalization in their practices and usually document them so that learning is shared in all areas of action.

The Fundación del Empresariado Chihuahuense in Mexico is a complex organization in terms of the actors involved, management of networks, and programs and projects, which over the years has carried out over 1,800 projects. FECHAC uses a formal planning system that includes the definition of objectives, actions, and responsibilities. According to the members of the Foundation, part of its success derives from the professionalism of its human resources and a shared vision, which is translated into precise objectives understood by the whole organization.

Intermón-Oxfam is dedicated to fighting poverty in developing countries. It promotes over 600 cooperation and development projects through local organizations in more than 40 countries in Africa, Latin America, and Asia. Given the complexity of its operation, its practices had to be systematized to achieve efficacy in its enterprises. This systematization extends to human resource management, and Intermón-Oxfam has guidelines for personnel selection and internal promotion. They define concrete processes for internal promotion, job selection, management of temporary positions, internal mobility and promotion, and organizational restructuring of its departments. The organization also implements training programs and has explicit policies on recognition and compensation, measurement of working conditions, and so forth.

CSOs and businesses that want to generate continuous improvement and innovation can anticipate what practices would promote individual and collective learning. The specific circumstances of each organization determine what priority to give to some practices over others. The cases analyzed provide information on innovations being implemented by both CSOs and businesses. These practices are generally the result of creative proposals rather than large investments of resources.

Table 6.1
Smart Practices: Ways in Which Human Resources Create Social and Economic Value in Social Enterprise

SMART PRACTICES OBSERVED	GENERATION OF SOCIAL VALUE	GENERATION OF ECONOMIC VALUE
Hiring practices centered on a search for personal values similar to the social values of the organization.	Personnel with an adequate profile understand the social issues the organization works on, generating better relationships with actors in the surrounding environment.	Compatibility between personnel profiles and the values of the organization reduce the rotation rate and avoid costs associated with constant changes in the workforce. Improved relations with the surrounding environment legitimate the presence of the organization in the long term.
Competency-based management that strengthens expert knowledge and develops personnel capacities, which previously were weak or nonexistent.	Improvement in personnel competencies leads to an increase in the effectiveness of social action.	Better personnel competencies lead to improved human resources productivity and capacity for innovation as well as more efficient management of social enterprises.
Personnel development policies oriented to retention of human resources.	Adequate compensation and improved quality of life for workers, which generates social benefits for them and their families.	Worker retention policies generate long-term relationships with the company, capitalizing investment in these policies.
Performance evaluation processes that emphasize goal completion and achievement of results.	Effectiveness in the achievement of social goals improves performance in enterprises and the organization's relations with actors in the surrounding environment.	Effectiveness in achievement of goals optimizes social investments and creates possibilities for the generation of new projects for the organization.
Development of the local population as a source of future workers.	Community development favors residents and the firm's workers, also generating enhanced employability.	Better sources for recruitment of qualified personnel lead to growth in the effectiveness of human resources and, as a result, improve company product and service offerings.
Formation of teams of volunteers.	Organizational capacities to generate social impacts are multiplied.	Costs to the organization do not increase due to a larger number of paid employees. The identification of human resources with the organization, as well as the image of the organization in the community, are strengthened.
Participative mechanisms in management.	Promote professional development of workers and empower human resources.	Risk related to leader-centered management is reduced and organizational sustainability is increased.
Development of mechanisms that promote organizational learning.	Knowledge related to social action iscapitalized resulting in more effective social enterprises.	Knowledge related to social action is capitalized resulting in social investment projects that also generate economic value.

Lessons on Value Generation through Human Resources Management Systems

In the businesses and CSOs studied, the human resources managers also contributed to the generation of value in the organization through the creation of high performance teams. Some of the experiences of these organizations are summarized in Table 6.1.

One of our most significant findings regarding the management of human resources and social enterprises is the capacity of organizations to introduce innovative policies that do not necessarily require an investment of significant resources, but that reflect the inclination of the organization to value the individuals with whom it works and to seek to develop their competencies so that their contribution to the organization is enhanced.

When firms are building their human resources, they need to recruit and train individuals who—whether in their own business environment or a new one with which they have to establish links—will develop the social sensitivity necessary to work effectively in the community through social enterprises. It is thus especially important for the firms to design adequate mechanisms to communicate and publicize their social actions throughout the whole organization. One of the principal strengths of businesses is that they have considerable experience in evaluating effectiveness and employing modern management practices for the administration of social enterprises.

The businesses in the sample are beginning to extend good practices in human resources management to their suppliers and other strategic partners to which firms are linked through their commercial activities. They have also begun to create corps of volunteers from among workers and their families. These initiatives allow firms to broaden their social action and generate greater feelings of loyalty, identification with the organization, and forge stronger links with the surrounding community. These two practices make it more likely that the firm will develop greater synergies in its relationships with its environment, thus fostering the creation of both economic and social value.

The CSOs studied have teams of competent specialists in the field of social action who are highly committed to the mission of the organization. Since the whole organization is primarily geared to the achievement of a social mission, it could have a large portfolio of enterprises and a great variety of specialists. All the same, CSOs need to strengthen their administrative competencies in order to retain talent by providing an attractive compensation and individually tailored personal development plans. The

organizations in the sample made improvements in this area by using mechanisms such as mentoring and training, defining competencies to guide human resources management processes, evaluating performance to achieve higher effectiveness, providing adequate remuneration, and installing formal systems for managing teams of volunteers.

In both types of entities, organizations that develop policies that take into account each one of the human resources management processes and integrate them into a coherent human resources management system are assured of workers that are loyal, highly competent, continually learning, and committed to social actions.

Notes

1. Brian E. Becker, Mark A. Huselid, and David Ulrich, *The HR Scorecard: Linking People, Strategy, and Performance* (Boston, MA: Harvard Business School Press, 2001).

2. George Bohlander, Scott Snell, and Arthur Sherman, *Administración de recursos humanos* (Mexico, DF: International Thomson Editors, 2001).

3. Jac Fitz-enz and Barbara Davison, *How to Measure Human Resources Management,* 3rd ed. (New York, NY: McGraw-Hill, 2002).

4. David Baty, Mark Ambler, and Helen Graham, *Sustaining Value through People* (European Business Forum, Autumn 2003 [cited December 21 2005]); available from http://www.ebfonline.com/main_feat/trends/trends.asp?id=436.

5 . Becker, Huselid, and Ulrich, *The HR Scorecard: Linking People, Strategy, and Performance,* 12–13.

6 . In this section, two types of specific organizational competencies are highlighted: competencies in management of social issues and competencies in administrative management.

7. Jim Collins, *Empresas que sobresalen* (Bogotá: Grupo Editorial Norma, 2002). The quote is translated from the Spanish edition.

8. "Organizations only learn through individuals who learn. Individual learning does not guarantee organizational learning, but there can be no organizational learning without individual learning." Peter Senge, *La quinta disciplina. Cómo impulsar el aprendizaje en la organización inteligente* (Barcelona: Granica, 1999).The quote is translated from the Spanish edition.
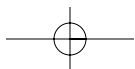
7

Financial Viability in Social Enterprise

The mobilization of financial resources for social enterprise is decisive. Consequently, it is crucial to learn how resources are attracted to and generated in social enterprises, mainly in the private sector, a topic barely covered in the academic literature. Equally, we need to study cross-sector lessons of practices that can be adapted from one sector to another to maximize the creation of social and economic value. While for companies the benefits drawn from the creation of social value (SV) through strategic social enterprise can boost the creation of economic value (EV), for CSOs the process is reversed, since the creation of EV through market mechanisms can enhance the generation of SV. These processes involve certain risks that will be discussed later on.

We approach the topic of funding mechanisms for social enterprise from a wide perspective, exploring the advantages and disadvantages of the different alternatives for companies and CSOs. Further, we examine the implications of such mechanisms in terms of the alignment of the social enterprise with the company's or CSO's strategy. Our discussion comprises four sections. The first one explains the basic elements that constitute a funding mechanism and points out the advantages and disadvantages of the dependent mode (one or few financing sources) versus diversified funding (several financing sources). The second section includes a more detailed analysis of dependence mechanisms in companies and CSOs, and in the third section, a similar analysis is presented for diversified mechanisms. In the last section we draw some lessons for social entrepreneurs in charge of the design of a suitable funding mechanism according to the general strategy of companies or CSOs. It is convenient to remember that the social enterprises that are part of the SEKN sample were deliberately selected because of their high visibility and performance and because they help to illustrate and explain the situation of lucrative and nonlucrative sectors. Our objective is not to determine what mode of funding is more effective, but to outline the existing variety so

that managers looking for the most appropriate mode for their organization can examine the options that suit them best.

Basic Components of Funding Mechanisms

The term "financing" refers to the mobilization of the financial resources necessary for social involvement.[1] These resources constitute the means to reach the main goal of all social enterprises: the creation of SV. The nature of the funding mechanism adopted can enhance SV in terms of coverage,[2] participation of stakeholders, and fulfillment of certain strategies and objectives of the enterprise; it can also bring specific benefits to the organization.

The elements to be considered when designing or evaluating funding for social enterprises are financing mechanisms and sources, as well as their degree of diversification. The degree of alignment of the social enterprise with the strategy of the organization also exercises a great influence on the election of the most appropriate funding mechanism.

Funding Mechanisms and Sources

A first step in the analysis of funding is to examine the mechanisms that compose it; that is, how the economic resources are generated. For simplification and analysis purposes,[3] we classify funding mechanisms into two major groups: those that operate through the market and those that are outside the market. The first ones are commercial or investment transactions associated with the social enterprise in a direct or indirect way. Direct relationship refers to the explicit design of a resource mobilization mechanism through the provision of a social good or, in the case of companies, the promotion of a social cause. Indirect relationship refers to the channeling of the resources generated through sales of products or services through cross-subsidization. Among market mechanisms the following are included: the sale of goods and services to the public in general, fee collection from beneficiaries, cause-related marketing campaigns, as well as funds set aside for social or environmental investment. Funds that are generated outside the market work as contributions which are not associated with commercial transactions. Among these, the following are included: donations (from the community, companies, multilateral agencies, employees, suppliers, or customers), public resources (government credit lines, contracts for the provision of services, contributions, and subsidies), and internal budget in the case of the companies.[4] Table **7.**1 shows the most common financing mechanisms and some of the sources of those resources.

Table 7.1
Funding Mechanisms and Sources*

	Mechanisms	Sources
A. Market - based	A1. Sales of goods and services to the general public**	Portfolio of customers involved/ number of goods or services offered
	A2. Fees from the beneficiaries of the social enterprise	Portfolio of beneficiaries with purchasing power/types of fees considered
	A3. Cause-related marketing	Existing campaigns/number of products and services included in these
B. Non-market	B1. Donations in cash or in-kind	Base of donors (personal, company, multilateral)
	B2. Public resources (credit lines, contracts for service provision, contributions or subsidies)	Foreign, national, state and local governments
	B3. Internal budget from companies (generation or mobilization of resources unlinked to the SE)	Business units or subsidiaries that constitute part of the financing scheme

(*) The cases considered in the SEKN sample portray the great diversity of funding mechanisms. Appendix 1 and 2 show the wide range of funding mechanisms utilized. In the case of companies, the following funding mechanisms were found: those connected to performance indicators such as production (Pantaleón), sales (MRW, Fondo Social CANTV), price of stocks (Acindar) or profits (Ron Santa Teresa, Grupo CSU-CCA); decentralized mechanisms that involve different associated organizations, such as business units, subsidiaries or franchises (Coca Cola of Chile, MRW, Antamina); mechanisms sustained through internal budget (CEMEX Mexico, FEMSA, Super@ulas of CANTV); and, finally, mechanisms involving the participation of external actors (e.g. Grupo CSU-CCA, Hocol). In the cases of CSOs, some mechanisms that were clearly based on business-oriented transactions with beneficiaries (Colsubsidio, Profamilia) or third-parties (ACHS) were identified; other mechanisms were sustained mainly by international donations (Fundación Proyecto Paria, Crear Vale la Pena, Labor, Corrente Viva, IDEC) and some others by public financing (ACOSAMA, Fe y Alegría, FECHAC). Appendix 3 presents some of the advantages and disadvantages -associated with the different mechanisms- which are developed and exemplified along the chapter.

(**) In the case of companies, this mechanism refers to labelling certain percentage of their income, sales, profit or production for use by the SE.

The cases considered in the SEKN sample show a wide range of funding mechanisms: see Tables 7.2 and 7.3 in the Appendix. For companies, the following funding mechanisms were found: those connected to perform-ance indicators such as production (Pantaleón), sales (MRW, Fondo Social CANTV), price of stocks (Acindar), or profits (Ron Santa Teresa, Grupo CSU-CCA); decentralized mechanisms connected to associated organiza-tions such as business units, subsidiaries, or franchises (Coca-Cola of Chile,

MRW, Antamina); mechanisms sustained through internal budget (Cemex Mexico, FEMSA, Super@ulas of CANTV); and, finally, mechanisms involving the participation of external actors (Grupo CSU-CCA, Hocol). For CSOs, we identified mechanisms that were clearly based on business transactions with beneficiaries (Colsubsidio, Profamilia) or third-parties (ACHS); other social enterprises were sustained mainly by international donations (Fundación Proyecto Paria, Crear Vale la Pena, Labor, Corrente Viva, IDEC); and others by public financing (ACOSAMA, Fe y Alegría, FECHAC). Table 7.5 presents some of the advantages and disadvantages associated with the different mechanisms, which are developed and exemplified herein.

Dependence versus Diversification

A common assumption is that a dependent mechanism is more vulnerable than a diversified one. This is not necessarily so; dependence and diversification have different implications for companies and for CSOs. Whereas the social enterprise in the business sector may remain dependent for strategic reasons—for example, through the discretional allocation of the internal budget—this would not apply to social enterprises of successful CSOs. That is to say, while dependence usually means a weakness in terms of vulnerability and risk for the CSOs, companies can capitalize on it to the point of obtaining competitive advantages, provided that the social enterprise is aligned with the general strategy of the company.

Diversification tends to be CSOs' favorite strategy for it brings greater stability, even if it is not completely risk-free. Conversely, diversification is still infrequent in companies, a fact that displays the little attention that the topic of social enterprise funding has received in Iberoamerican business circles to date. Moreover, when speaking of dependence or diversification, it is necessary to pay as much attention to the mechanism as to the financing source. The alternatives can be represented in a matrix that places the social enterprise according to the degree of dependence/diversification of its mechanisms and sources (see Table 7.2).

- Moderate diversification: funding that employs a **variety of mechanisms** but has **few sources** of resources.
- Significant diversification: funding that attracts resources through a **variety of mechanisms**, including generation through the market (in the case of CSOs) and has a **variety of sources** for each mechanism.

Table 7.2
The Diversification / Dependence Matrix

	Dependence	Diversification
Diversification	Moderate Diversification	Significant Diversification
Dependence	Significant Dependence	Moderate Dependence

MECHANISMS (vertical axis) — SOURCES (horizontal axis)

- Significant dependence: funding that mobilizes resources through **few mechanisms and sources**.
- Moderate dependence: funding that has **few mechanisms** but mobilizes resources from a **variety of sources**.

Seldom will social enterprises achieve a maximum level of diversification[5] because some mechanisms turn out to be not viable (or desirable) in one sector as compared to the other. For example, few companies tend to attract community donations or public resources to finance their social enterprises. Likewise, few CSOs mobilize monetary contributions on the part of their employees. Therefore reference is made to mechanisms of significant (not maximum) dependence or diversification.[6]

Alignment
Although the degree of alignment does not constitute a direct element of the funding mechanisms, it does exercise an important influence on their design and development. In the case of for-profit companies, alignment occurs when the social enterprise is framed within a general strategy of corporate social responsibility (CSR), is related to the core business, and forms one of the links in the chain of value.[7] In the case of CSOs, the social enterprise is not merely a program or initiative but the purpose of the entire organization. Therefore alignment in a CSO refers to the proximity between the funding mechanisms and the organization's core mission.

Dependent Funding Mechanisms

The concept of dependence implies nuances in terms of mechanisms and sources (see Table 7.2). A state of significant dependence is associated with a low number of mechanisms and financing sources. In the case of CSOs, it means the mobilization of funds through just one mechanism and few sources of funding, without involving market mechanisms. In companies, it refers to discretional allocation of the internal budget that is subject to particular circumstances and has certain consequences.

Dependent Mechanisms in Companies

The sample of cases offers the experience of a great diversity of financing dependence mechanisms: models linked directly to discretionary budgetary assignments; to performance indicators such as production units, revenues, sales, or profit; and to stock market results. Some social enterprises have a philanthropic focus and low alignment; others are more strategic, designed to produce benefits derived from the creation of SV. The following analysis explores the nuances related to the dependence mechanism, emphasizing their advantages and disadvantages.

Dependence in Philanthropic Initiatives

Industria Argentina de Aceros (Argentine Steel Industry, Acindar) runs a low alignment social enterprise financed through a dependence mechanism. From its beginning Fundación Acindar, the company's main social enterprise, continued to operate under the direction of the proprietors of 100 percent of its capital until the changes in the stock ownership structure took place. Its financing came from stocks donated by the generation of individuals who created the Foundation, stock dividends, as well as an annual gift from the company. This mechanism had prevailed through the four decades of existence of the Foundation as a result of the family tradition that conserved and defended the founders' commands. The company was not only the main financing source of Fundación Acindar, but also provided the necessary human resources for its operation as well as for the management of its functional areas and direction. The low alignment of the social enterprise together with its highly dependent funding mechanism meant a high vulnerability in the face of changes in the company structure or during times of crisis. Although the budget of the Foundation had varied according to the economic situation of the company, the contribution had never been suspended.

As a company official explained: "During the crisis (2000–2001) there were no changes in the attention that the board offered to the foundation.

There was just a decrease in the budget. Discussions around the subject were raised. At that point some of the family members on the board decided to continue." This position began to change when the board no longer consisted exclusively of family members, and the economic justification of the social enterprise became crucial.

Maintaining a dependence mechanism for a social enterprise that has a low alignment, a scenario which characterizes traditional philanthropic social enterprises, greatly limits the realization of benefits for the company. It also blocks the creation of SV by diminishing the possibility of mobilizing larger amounts of resources, especially in the absence of a structure that can trigger the mobilization of funds.[8]

Dependence in Strategic Initiatives

Dependent funding of social initiatives is not alien to the experience of the private sector, even in social enterprises with outstanding performance. While some companies discover that the alignment of the social enterprise with the business strategy leads to new alternatives for expanding its funding mechanisms, others opt to maintain a financial dependence model that could help them to develop some competitive advantage. Some companies also opt for social enterprise dependence as a temporary mechanism that allows them to generate future allies. The first two options are illustrated by two Mexican cases: Cemex Mexico and FEMSA; the third is the experience of the Super@ulas of CANTV.

Cemex México presents the case of a social enterprise which ran into trouble when company policy changed. Then, after becoming strategic and aligned, it took its first steps towards abandoning a 100 percent dependent funding mechanism. The movement towards a state of alignment and integration came together with an evolution of the funding mechanisms.

Until the beginning of the 1990s, Cemex Mexico had followed a philosophy of "open faucet,"[9] characterized as philanthropic, reactive, and paternalistic in its relationship with the community. The support granted to the neighboring communities was through contributions in species and cash. The budget was allocated in a discretionary way by the board of directors and was controlled by the plant directors who received the neighbors' requests and decided which ones to select. Although this social action was not very integrated into the strategy, the resources were managed so as to respond promptly to community needs. The lack of alignment of the social enterprise with an integral strategy, however, reduced the company's capability to capitalize on the benefits. A change in the board of directors spurred a modification in the way resources were allocated, and

the decision-making processes were centralized at the head office of the corporation. Thus the petitions that used to be processed by the plant directors now became subject to central office approval. In a company official's words, the process turned bureaucratic, and, as a result, the petitions of the community were staying "in the drawer" and were not receiving a prompt and timely response. This raised dissatisfaction in a community that was used to receiving benefits in a paternalistic scheme, and people began to feel that the company was "a careless neighbor that didn't pay attention nor opened its doors." There were protests and strikes; some groups blocked one of the plants and prevented truck traffic for some days. The funding mechanism was still the same, but the delay in the assignment of resources was such that the social enterprise was interrupted for a while.

In 2002, the "Cemex cerca de ti" program was launched in an effort to identify the needs of the communities surrounding company facilities and to provide solutions for those needs. Its initial objectives were "to shield" company operations from possible contingencies, to generate awareness of what happened outside the facilities, and to bring forth opportunities for community development. This change was fundamental, because the program's alignment with company strategy led to a different way of managing financial resources. The company assigned to each plant people responsible for taking charge of community relations. According to the specific needs of the community, they started elaborating annual plans of activities according to certain budget allocations. The budget was still decided in the corporation and allocated according to needs, but having a person in charge brought back the quick response, this time under a strategic mechanism that allowed the company to develop a continuous community relationship. Even after the strategic restructuring, the funding mechanism remained dependent because the resources for the program came from an internal budget allocation derived from the commercial operation of the company. Nevertheless the evolution in terms of alignment brought new opportunities of resource mobilization. On the one hand, the project was supported with resources in species provided by collaborating entities such as CSOs, government agencies, and universities. Moreover, other companies that were interested in community development within the areas where Cemex operated started to build the foundations for the mobilization of financial resources. There was a plan of establishing an alliance with another great multinational with the objective of creating community centers that would offer micro-credits in addition to social services. In this way, a wholly dependent mechanism

began to take the road to diversification. If the plan works out, the combination of resources of both companies will allow for an increase of coverage and provision of services, and enhance social and economic value.

The Cemex experience offers two lessons. On the one hand, it underlines the importance of observing the procedures that govern resource management beyond mere mobilization, because the degree of bureaucracy and decentralization has important implications for the social enterprise. On the other hand, it teaches that a strategic and therefore aligned social enterprise allows the growth of a range of opportunities for resource mobilization, in species and cash, by other entities interested in similar community investments.

Cervecería Cuauhtémoc Moctezuma (CCM) showcases the strategic choice of a dependent funding model, seeking to capture competitive advantages. CCM is a Mexican brewer company of Grupo FEMSA, which by 2005 had a 45 percent market share, after their only competitor, Grupo Modelo.[10]

CCM's product enjoyed a favorable position among Mexico's quickly expanding young population. Thus the company focused its CSR programs on youth education regarding responsible alcohol consumption. The motivation for developing these programs was mixed. On the one hand, there was genuine concern about contributing to the solution of the problem of alcohol abuse among young people: "We know that the fact that beer is one of the drinks with less alcoholic content in the market (4.5 percent on average), does not mean that it does not have to be drunk responsibly and with moderation." On the other hand, the social enterprises were considered a source of competitive advantage: "When two companies have products that are perceived to have similar quality, the decision of whether the customer will lean toward one or the other depends on the degree of social responsibility of the company that produces them."

CCM social enterprises were managed by the social responsibility unit, which planned the activities within the budget that was allocated by the general management. The interest of the company in these programs was such that it had been raising the budget year after year. However, although CCM was able to mobilize nonfinancial resources (mainly volunteers) of CSOs and the government, it did not consider opening the project or its funding mechanisms to the rest of the industry, since the social enterprise was considered "a flagship project" of the company.

The experience of CCM shows that when the firm openly seeks the benefits derived from its social enterprise, it is more likely to favor a dependence mechanism than a mixed funding mechanism. This is particularly true

when there is competition, because collaborating with competitors would imply giving up competitive advantage and sharing prestige and other derived benefits. This limits the creation of SV on the part of the company. An alternative is the collaboration with companies of different industries that have interests in the same social causes; the goal would be to identify others that could draw a part of the created value. In the case of CCM, for example, collaboration with insurance companies could be considered.

CANTV used dependence funding as a strategy to win over allies. Its social enterprise Super@ulas began to operate in January 2004 as a project linked to the Internet business that was directly managed by the company. Through this program, CANTV was seeking to improve the relationship with the government and expand the customer market. Super@ulas turned to the Venezuelan government for support in bringing information and communication technologies to public schools that lacked them. It sought "to satisfy the state-of-the-art education needs of children at national schools located in neglected communities through the creation of modern classrooms with high technology and specialized personnel." This initiative was led by the business unit Company and Institutions that reported directly to the Executive Vice-presidency of CANTV. To finance this program the business unit assigned $10 million dollars for two years, as a non-recoverable fund that would pay for the equipment and maintenance of 100 classrooms. After this initial term, the expectation of the company was that the program would be adopted by the Ministry of Education, Culture and Sports of Venezuela. At the beginning of the program the Ministry financed only the electricity expenses. The expectation of generating revenues for the Super@ulas and making it a commercial venture depended on getting the government to adopt the initiative and take over the administration of the existing units after two years; the company also expected there would be demand for new units as a result of the initiative's success. The vice-president of the company hoped to recover this investment: "If the government buys in, CANTV gets the revenues, and after the change is made, we have improved education and can invest in a new case."

The practice of linking funding mechanisms to performance indicators was found repeatedly within the social enterprises of companies. In our sample, seven of the 20 cases analyzed appealed to this mechanism by connecting their funding vehicle to variables such as sales, revenues, profits, tons of production, gross turnover and profit margin.[11] This practice helps to institutionalize the financing mechanism and reduce discretionary budget allocation when the company defines the percentage to be assigned to the social enterprise. Nevertheless, it also holds certain risks, such as an

eventual budget decrease and questions of continuity. Furthermore, this mechanism presents different implications for philanthropic and strategic social enterprise. The cases of the Social Fund CANTV and Ingenios Pantaleón, a sugar refinery, are illustrative.

The main social enterprise of CANTV, "Fondo Social CANTV para niños y jóvenes en riesgo social," was intended to protect vulnerable children and youngsters. After the adoption of a funding mechanism through resource transfer via budget, CANTV determined, as of 2001, to channel to its social enterprise 1 percent of the sales of phone card chips and the card "única" (which integrated Internet access and public and mobile telephones). As of 2003, it also diverted 1 percent of the amount billed by public telephone use through telecommunications centers. These decisions were carried out without communicating the resource destination to the customers and without connecting the social enterprise to a wider CSR strategy, even though they provided continuous and secure resources to the social enterprise. Since its creation and until 2003, approximately $6 million dollars were contributed. The setting up of this mechanism, however, generated a critical situation for the company. On the one hand, the proportion represented by social investment in relation to financial profits increased in view of the declining markets in 2004. The invested sum went from 0.61 percent of the company gross profits in 1998, to 7.48 percent in 2003. Also, the total social investment (constituted by additional initiatives such as Small Donations Fund, Sponsorship Fund, Nonincorporated Assets, spots on telephone cards, other donations and Movilnet sponsorships) had gone from 1.55 percent of the net profit in 1998 to 12.91 percent in 2003. This was a positive situation from the perspective of resource assurance, but it began to create a "conceptual long term problem"; as the Executive Vice-president explained, "the gathered funds tended to surpass the beneficiaries' capacity to use them. A strategic resource plan implementation has not been established, but rather, reactive action has been taken in multiple requests . . . when you put too many funds into an entity, generally, you kill it." Weakness of implementation, follow-up, and evaluation raised concerns in the company about the future of the Social Fund. The results showed that it was important to move towards strategic alliances with the beneficiary institutions, as some of them were becoming over dependent of CANTV. For example, for 37 percent of CANTV beneficiaries, the contribution of the company represented more than their annual budget, and for 45 percent CANTV was the only private company that supplied economic support. Some directors showed concern about the results of their social investment because they perceived it as unlinked to the business objectives.

The case of CANTV contrasts with that of Ingenios Pantaleón in Guatemala, a company that invested socially in education, health, environment, housing, and municipal development in the communities where its workers lived. Although Fundación Pantaleón, which managed most of the social enterprises and was constituted with capital contributed by the stockholders, used an internal funding mechanism and was therefore dependent, it had been institutionalized in a way that was directly linked to the productive operation.

The stockholders decided to fund Fundación Pantaleón through a fixed sum per monthly production unit: $2.20 per ton of sugar produced. The annual budget amounted to approximately one million dollars in 2005, which was considered an investment that led to higher productivity, costs reductions, and increased loyalty from workers, suppliers, consumers and stockholders. In addition, the company appealed to financing in collaboration with other entities with the purpose of extending its community intervention. To expand its coverage and implement more complex initiatives (housing), Pantaleón collaborated with Fundazúcar, an NPO that represented the local sugar refineries and operated on the south coast. Common projects were carried out, such as the first housing project for the workers with 124 houses, in which Bancasol also participated financially. Likewise, with the purpose of influencing the adoption of the social responsibility concept on a nationwide basis, resources were channeled to CentraRSE (Centro para la Responsabilidad Social Empresarial, or Center for Corporate Social Responsibility).

CANTV's experience illustrates how keeping a low profile before the clients might limit the social enterprise's economic and social potential. The company missed the opportunity of making the community aware of its selected social causes while at the same time creating brand loyalty and purchasing preference. In contrast, at Ingenios Pantaleón, the election of a social cause with a high priority in the context of the company's operation allowed it to consider the channeled economic resources as an investment rather than an expense. Also, it was effective to execute the budget in association with needs such as coverage or focused expansions. Thus resources mobilized through a mechanism connected to performance could have a wider impact in terms of SV creation.

Dependence Mechanisms in CSOs

In CSOs, as in companies, dependence refers to a limited number of mechanisms and financing sources. The difference is that while for companies this mechanism can yield an advantage, in the case of CSOs it represents a

serious weakness and considerable risk. Among the CSOs studied, it is infrequent to find dependent financing mechanisms; in fact, the evidence suggests that diversification may characterize high performance CSOs.

The Mexican Fundación del Empresariado Chihuahuense (FECHAC) is one of the few social enterprises in the not-for-profit sector that operates through a dependent funding mechanism. Around 97 percent of FECHAC resources came from the extraordinary fiscal contributions of 38,000[12] business people in the form of an extra payroll tax, which was established through a decree thanks to the lobbying of the Business Chambers after a natural disaster.[13] Throughout its history, FECHAC had never faced a financial crisis, given that the resources mobilization mechanism via taxes provided the necessary funds to operate. It was not until the year 2000 that FECHAC decided to formulate a fundraising strategy as a contingency plan to avoid dependence on a single revenue mechanism. As the person responsible for funds procurement explained: "Initially, and unfortunately, additional funds were not sought, since there had always been enough resources. There was not a department responsible for that; we had not considered it a high priority due to the bad habit of having money."

By the end of the 2003, and as a result of a new strategy of resource mobilization, FECHAC was obtaining approximately 3 percent of its revenues through sporadic donations. What kept the social enterprise in operation was the tax-based nature of the financing mechanism that supported it. However, if changes to the tax decree were to be made, the continuity of the social enterprise would be at risk.

It is common for a CSO to get established through dependent financing by a founder or third parties interested in a particular social action. Nevertheless, to achieve consolidation and financial sustainability, it is necessary to develop a mechanism that does not rely on a small number of sources. Among the different alternatives, it is crucial to consider the generation of original models whose revenues cover at least 50 percent of the total budget of the organization, as well as the operating expenses.[14] The following section presents the experience of some CSOs that have stood out because of their efforts to build a diversified mechanism.

Diversified Funding Mechanisms

The topic of diversification is approached through the analysis of multiple mechanisms and financing sources that allow a reduction in the vulnerability of the revenues structure. In the case of CSOs, it refers to self-generating models—earned income—through the market (EV generation), and multiple mechanisms and sources not related to the market. In companies,

it is about resource mobilization beyond the discretional allocation of the internal budget, as well as about the possibility of designing decentralized mechanisms that involve different operations-related entities, such as business units, franchises, or subsidiaries.

Diversified Mechanisms in Companies

Diversification of funding mechanisms for social enterprises in the private sector is usually less common than in CSOs (see Table 7.3 in the Appendix). This can be partly attributed to the social context in Iberoamerica, in which it is expected that companies contribute to social problem-solving through money contributions, under the traditional philanthropic scheme of returning to the community a part of what has been received from it. In addition, it can make strategic sense to set up an internal funding mechanism that provides the benefits of recognition by making the social enterprise a flagship initiative of the company.

Nevertheless, diversified funding mechanisms in social enterprises of the private sector are not only possible, but can generate benefits that would be otherwise unattainable. A wide diversification is associated with multiple advantages and possible disadvantages: 1) lower company investment, which implies that recognition would be shared with other entities, and that the capability of operative control might be reduced; 2) co-responsible awareness and participation through a wide mobilization of diverse actors such as employees, suppliers, clients, competitors, community members in general, government, external agencies, and beneficiaries; this would offer not only financial benefits, but would also enhance the social enterprise, although it can imply the same risk considered in the previous point; and 3) wider accountability that would promote transparency and continuous feedback; nevertheless, this normally requires a significant investment in external communication and administration.

In contrast to the companies that opt for a dependence mechanism, those that seek wide diversification through the mobilization of multiple mechanisms and decentralized mechanisms enjoy some of the advantages of getting diverse entities (associated with the business) involved.

Costa Rica's Grupo CSU-CCA, dedicated to the supermarket business in Central America, is case of ample diversification: it had not only a wide portfolio of social enterprises, but also a great variety of financing mechanisms. On the one hand, it had internal resources available for channeling, such as a fixed percentage of annual gross profit (that is, mechanisms linked to performance). On the other hand, it mobilized resources from third parties, such as:

- Customers: cause-related marketing campaigns
- Suppliers: contributions to the cause-related marketing campaign
- Employees: voluntary contributions, deducted from payroll and supplemented with matching donations from the company
- Community: bingo games organized together with community leaders.

To make a contribution to the national educational system and promote managerial CSR in the local private sector, the company joined the Asociación de Empresarios para el Desarrollo (Association of Businesspeople for Development), an NPO that channeled domestic and foreign enterprises resources towards projects that promoted the sustainable development of Costa Rica.

The benefits drawn from such diverse funding mechanisms were threefold: 1) the wide resource diversification allowed the company to increase the scale and scope of its social enterprises; 2) the diversification produced benefits in terms of increased sales, enhanced reputation, improvement of the relationships with, and the quality of, suppliers; 3) the participation of diverse actors enriched the design and execution of the initiatives, and at the same time it promoted a concept of co-responsibility and sense of ownership between the employees and community. As a lesson, the case portrays the importance of not discarding any potential interest group a priori: for example, excluding the suppliers in the belief that the cause-related marketing campaigns they supported were mere promotions which lacked a "real social sense."

Not all companies studied were characterized by a significant degree of diversification. Some achieved decentralization by involving different units of their value chain in their funding mechanisms, thereby obtaining some of the advantages attributed to the diversified mechanism while keeping "ownership" of the initiative. Examples are the Spanish courier MRW and Coca-Cola of Chile.

MRW had 693 franchises in the Iberian peninsula in 2003 and dedicated its social enterprise to offering discounts to certain social groups (soldiers, students and professors, CSOs, the handicapped, the elderly, large families, owners of animals with a social purpose, bookstores) with the objective of adding a social dimension to their delivery services operations, and, at the same time, attracting potential clients. The social enterprise was recognized as one of the strategic pillars of MRW, the essence of its culture, as well as a key aspect to differentiate it in the market and guide

its external communication. In other words, it enjoyed a high level of alignment and integration.

The funding mechanism designed by MRW was connected to sales and required certain counterpart payments by the beneficiaries. One percent of the gross turnover of each franchise was aimed at covering the discount offered to the social groups and CSOs in the local community where they operated. The beneficiaries, on the other hand, covered the difference between the discount and the price for the service. The counterpart resources from the beneficiaries, as well as the contribution of the franchises, represented an alternative to a stricter diversification. By means of these mechanisms the company moved away from total dependence on the internal budget to a sustainable social enterprise, and by involving its branches it took social action beyond the central offices.

The experience of MRW contrasts with that of CANTV's Fondo Social. Although the financing mechanism was similar (linked to sales), the Spanish company made a clear alignment between the social cause and the core business. In this way, the social enterprise satisfied the needs of the market niche that had been neglected and increased sales throughout its franchise network.

In a similar way, Coca-Cola of Chile reached an agreement with the national bottling companies for the funding mechanisms that would sustain its social enterprise since its launching. It was agreed that Coca-Cola would finance 50 percent and the bottling companies the other 50 percent, depending on the geographical area where the investment would be made. The sum available for investment varied according to the financial possibilities of each bottling company. From the economic perspective, as well as from the administrative point of view, quality had been privileged over quantity. In fact, one of the factors for the success of the model was not burdening the social organization with excessive donations that it could not have managed. This had a double purpose: to avoid an excessive financial outlay for the bottling companies and to execute only those activities that could be administered within the existing structure.

Diversified Mechanisms in CSOs

The struggle to reach diversification is fundamental to CSOs, since most of them are originally dependent either on the personal support of the founder or on the subsidy of some sponsoring external entity. That dependence tends to limit the scope of the social enterprise in coverage and quality and can result in the eventual disappearance of the organization.

Also, it may cause a deviation from the core mission, or an evolution towards a different aim.

In this regard, financial sustainability has been recognized as one of the main factors for the effectiveness of high-performing CSOs. A sustainable financial strategy achieves diversification of income sources and consequently minimizes the dependence from a single source (either internal or external), thus reducing vulnerability in the event of a change in resource availability or donor's preferences.[15] Diverse studies have concluded that it would be inappropriate to prescribe a formula of the percentages of resources derived from different sources to determine if a CSO would qualify as "financially sustainable." Yet researchers consider that it is necessary to reach a balance between internal and external generation of resources, so that the operating and administrative expenses are covered and the organization is still free to determine its program priorities independently of donors' preferences. One source suggests that the CSO must collect enough resources through self-generation so that it is able to cover at least its operating costs and still attract external donors for its program costs.[16] According to Boschee, a financially sustainable strategy is based on the following factors: 1) diversified financing structure; 2) attracting and creating resources by continuously looking for alternative sources; 3) the establishment of a contingency fund that would allow the coverage of operating expenses for some specific period.[17]

Generation of Resources through the Market

Commercial incursion of CSOs has been a growing trend in the last decades. In an attempt to reduce their financial dependence from donations or subsidies, various CSOs have chosen to commercialize their programs.[18] Some of them have diversified their funding mechanisms through earned-income strategies linked to their core mission.[19] Below we show some of the benefits derived from this path.

Synergy creation. The election of a market funding mechanism associated with the core mission allows the organization to take advantage of its key capabilities and resources, generating synergies through the leverage of its organizational experience. Failure of resource-generating activities through the market has been attributed to the election of initiatives that were not synchronized with the organization's mission or that required competencies that the organization lacked.[20]

After experiencing a situation in which donations from international sources were reduced,[21] the Instituto Nacional de Biodiversidad (INBio) of Costa Rica set up a financial sustainability program with the purpose of

reducing external dependence and enhancing its own earnings. The initiatives implemented (publishing, consultancy, and thematic parks) had a considerable degree of alignment with the organization's mission and its capabilities; these programs allowed INBio to reduce the percentage of donations coming from international sources from 45 percent of its budget in 2000 to 24 percent in 2001. The reduction was reached in such a short time because the elected income-generating activities were linked to the existing assets in the organization, principally to its scientific knowledge in the biodiversity field.

The ten units of technical education of Corporación Chilena de Desarrollo Social del Sector Rural (Codesser) generated resources through the sale of products and services derived from its agricultural activities.[22] This allowed the member schools, conceived from their start as both educational and productive centers, to draw the maximum profit from their knowledge and capabilities.

In contrast, the Asociación Chilena de Seguridad (ACHS), by doing a good job in labor accidents prevention, reduced the number of accidents and thereby the contributions of member companies. Their efficacy in mission attainment, paradoxically, brought about shortfalls in income and idle workforce. In 2003, besides business contributions, the organization built its own funding mechanism. It consisted of the sale of hospital and doctor services to third parties, as well as other health-related services provided for members and outside patients.[23] Entering the medical services market in a wider way than the one originally conceived triggered synergies and also allowed the organization to take advantage of its excess capacity.

The social intervention mechanism of Caja Colombiana de Subsidio Familiar (Colsubsidio) moved from monetary subsidy distribution to vulnerable populations to the provision of social services under the slogan of "less money in checks and more in services." The social services granted were subject to fees from the beneficiaries according to their ability to pay. Although the organization did not have specific experience in handling a wide portfolio of market initiatives, remaining focused on its core mission allowed it to develop these activities in a satisfactory way.

Financial surplus. Developing resource-generating initiatives through market mechanisms opens the possibility of generating a surplus. This might be directed to cross-subsidizing (helping social groups with lower payment capacity), sustaining the unprofitable programs, constituting a contingency fund, or investing in infrastructure or technology. In fact, the

companies with internal funding mechanisms also resort to cross-subsidies, as the surplus generated from their commercial activities funds their social enterprises. The following are some examples of CSOs that were able to generate surpluses by entering market activities.

The main component of Colsubsidio funding mechanism came from the provision of social services through five "business units"[24] whose surplus represented 45 percent of the total budget. While profitability was a main objective in the provision of services that were "completely open to the market" (health, social marketing, housing, and credit), other services (education and culture) remained subsidized. The idea was to channel the surplus of the profitable initiatives through an explicit cross-subsidization policy.

Codesser sought to match the resources drawn from each of the member schools with self-generated funds, and this was achieved in the case of most of them. It also created an annual budget for contingencies, which could not be used for infrastructure investments.

Improved services. In general, self-generated resources from market mechanisms allow CSOs to enlarge their coverage and to improve the quality of the services provided Because the organizations benefit from the feedback obtained through price mechanisms in a relatively competitive context.

The diversification strategy carried out by Colsubsidio at the end of the 1990s pursued a double objective: self-sustainability along with expansion of the coverage offered to vulnerable and neglected sectors of the population. In a context where competition at the national level had developed a clear commercial orientation, Colsubsidio stopped being a CSO limited to responding to the requests of the member companies and adopted a more proactive stance of supporting human resources and developing a focus on customer satisfaction.

The funding mechanisms of Codesser allowed it to finance high-quality free education[25] thanks to the combination of product sales and agricultural services, donations, and public subsidies. The achievement of financial stability was crucial in focusing organizational efforts on the measurement of educational quality.

It could be said that the experiences of the organizations described above are unique and thus difficult to imitate. However, their stories offer a valuable general observation for CSOs: it is advisable to carry out a detailed analysis to determine if the targeted social cause could be connected to a market mechanism to direct cross-subsidies towards population groups

with lower payment capacity, or to make use of idle capacity in a context (or season) of lower demand. This is easier to do when the attended social need is related to private goods[26] for which it is possible to generate a model based on fees or sales collection from beneficiaries or third parties. Furthermore, it is important to pay special attention to the execution of the strategy. A study that analyzed the income-generating activities of CSOs focused on community development found that the factors of success and the most common mistakes usually had to do with the implementation phase and not with the established strategy.[27] Among the significant factors for successful implementation identified in the literature and confirmed by our research, the following stand out:

- Maturity, because a CSO with a longer trajectory usually has better financial discipline, greater marketing capabilities, as well as better competence in terms of managing the mission and the resource-generating activities (double bottom-line);

- Understanding of the market forces to be used in favor of the social enterprise;

- Focus on core competences, since a steep learning curve usually has a smaller probability of success; taking advantage of core capabilities facilitates the achievement of the objectives.

As we consider the benefits of generating resources through the market, we must take into account the risks and have realistic expectations. A scenario of unjustified optimism is one in which the calculated financial returns are not realistic and the possible challenges or risks are discarded.[28]

Generation of Resources Outside the Market

For some CSOs it may be difficult to devise financing mechanisms through a given market, perhaps because of the nature of their social cause (private versus public good) and the degree of its acceptance or "popularity" in the eye of governments, foundations, or the general public. These CSOs usually seek diversification outside of the market. Below, certain advantages and disadvantages of this type of diversification type are approached through the analysis of some roads followed by the organizations in our sample.

Mobilizing local resources. Fundación Comunitaria Oaxaca (FCO) has evolved from complete dependency on a number of important international foundations (Ford, Kellogg, MacArthur, International Foundation for the Youth), to a diversification strategy based on three pillars: the

launching of campaign of social responsibility and cause-related marketing in the local community, the mobilization of individual contributions through a model of social investment, and grants of public funds for specific projects.

The initial funding, based on contributions of foreign foundations, turned out to be positive in terms of support and knowledge transfer during the starting phase, but it had certain limitations. On the one hand, the contributions of foreign entities were labeled for specific program items, and therefore there was a risk of biasing the election of activities towards the preferences of the donor. In fact, the first FCO program, the Program of Childhood and Youth, was aligned to the agenda and intervention mechanism of the International Youth Foundation. It is unlikely that this program would have been prioritized had a community consultation been carried out. On the other hand, foreign agencies tended to demand a heterogeneous accountability, which represented a considerable cost in terms of the administrative resources invested in that process.

Although by 2003 international donations still represented most of the total budget (64%), the FCO had been able to mobilize national (28%) and local (8%) sources. ocal contributions had shown a rising trend as a result of the awareness created through multiple CSR campaigns, with a twofold purpose: By involving Oaxaca's society, the FCO generated a positive externality in terms of awareness of the state's social problems. In addition, for certain specific projects, the FCO mobilized government resources and promoted co-responsibility by complementing the development of actions from the public sector.

Mobilizing international resources. The funding of Crear Vale la Pena (CVLP), an Argentine organization that worked for the promotion of social inclusion through art, was originally 89 percent dependent on a single international donor. The assumption that the donor's support would increase with the organization's growth did not materialize. This disappointment, together with a national economic crisis in 1999, became a catalyst towards diversification of financing sources. A subsidy granted by Argentina's federal government with resources from the Inter-American Development Bank funded the process of strategic planning, launched with the objective of scaling up the social enterprise.

Although CVLP's revenue structure was still based on international donations, it moved to a model supported by a diversity of sources: more than twenty entities including private and public sources and multilateral organisms, as well as members' and collaborators' fees. In this way, the

dependence on the resources from the founding donor was reduced to 42 percent of the total budget. It is worth pointing out that a high percentage of the organization's resources (85%) came earmarked for specific ends. This was considered a drawback, because it could jeopardize the priorities and core mission of the organization. Also, the fact that funding from public sources was negligible became a weakness and a threat to the continuity of the programs, as it implied less legitimacy and a lower likelihood that the government might eventually decide to adopt the CSO's programs. During the expansion of the sources, the founder and executive president had done an outstanding job of working with networks and alliances. For example, just in 2003, she contacted more than 250 national and international organizations and had interviews with 35 organizations in Europe.

In a similar way as CVLP, Fundación Venezolana Proyecto Paria went through a transition in its funding mechanisms: it started depending in 92 percent from the tourist company that created it, but by 2003 it mobilized 82 percent of its resources through multiple international sources. The mechanism change required the introduction of a new system and managerial practices that boosted its performance, so the CSO hired a company specialized in management. It introduced systems for planning, project control, and budgetary execution. Likewise, the transition resulted in an increase in the demand for accountability and budgetary execution by international donors. Such demands were considered "unrealistic" by the administrators; this caused setbacks in the fulfillment of the control and report methodology and in turn delayed budgetary execution.

The three examples show that it is harder to generate resources through market mechanisms for certain social causes such as community development and the promotion of art. In this context, it can be useful to outline a financing strategy aimed at expanding the number of sources that contribute through already existing mechanisms. Also, it could be interesting to test other mechanisms, even if these work outside the margin of the market (scope expansion). This can yield some advantages associated with the mobilization of knowledge and commitment from the donors, but at the same time create some drawbacks such as undue influence on the agenda and priorities of the organization or an excessive demand for accountability.

A potential risk of CSOs diversification, both through the market and outside of it, is deviation from the mission. A focus on profitability and customer satisfaction can become a distraction from the social cause, so it should be managed carefully. Although in the long run financial sustainability empowers the organization for a better fulfillment of its mission, in

the short term it may cause it to move away from its own priorities, often because of the greater effort and administrative resources that are needed to reorganize. The case of Colsubsidio portrays certain potential tension between the objectives of competing openly through profitable business units and channeling surpluses in the form of cross-subsidies to programs that were not profitable. In a similar way, in ACHS it was feared that the service sales ended up affecting the original mission by privileging private patients who could pay. In fact, the unit had already built deluxe rooms for VIP patients. It is interesting that the literature on successful social entrepreneurs underlines their capability of understanding and taking advantage of the market forces without losing view of the core mission.[29] Diversification based on mechanisms outside of the market present similar risks, as portrayed partially by the experiences of FCO and CVLP.

Managerial Lessons

What lessons can we draw regarding the choice of dependence or diversified funding mechanisms? What are the implications of using different financing mechanisms? We will first consider the case of companies.

Lessons for Companies

- The election of a social cause and the way in which it is integrated to company strategy has important implications in terms of the funding mechanisms that can be developed.

- If the company has a particular interest in capturing benefits from the social enterprise, the latter should be well aligned with its main line of business.

- When the company wishes to consolidate a competitive advantage through the social enterprise, it can be appropriate for it to favor dependent financing mechanisms. This choice, however, might bear costs in terms of reduced SV creation by the company. A way to minimize those costs is to appeal to a diversification model that involves other actors who might be interested in the same social cause but do not seek to develop a competitive advantage. Otherwise, the SV generation could be limited because the creation of synergies with third parties would be discarded, thus restricting the expansion of the coverage and leaving the social enterprise more vulnerable in crisis situations.

- The practice of connecting a dependence mechanism to a performance indicator facilitates the process of institutionalizing the

social enterprise. A nonaligned social enterprise can cause a problem, however, in that it runs the risk of a decrease (or uncontrolled increase) in the sum channeled.

- Diversification does not yet seem to be a common practice in the Iberoamerican private sector, so there is plenty of scope for companies interested in becoming pioneers within and outside their industry.

- In order to complement the available resources, it can be effective for companies to seek a mixed mechanism or social enterprise differentiated in such aspects as coverage expansion, focus, or intervention.

- A wide diversification offers a series of benefits: lower out-of-pocket investments, which may also have the added benefit of contributing to the sustainability of the social enterprise; co-responsible awareness and participation through a wide mobilization of diverse actors, which would not only offer monetary benefits but also enhance the social enterprise through wider accountability, greater transparency, and continuous feedback.

- An alternative to diversification is decentralization through the participation of different entities related to the business, such as franchises, subsidiaries, associated companies, or business units.

Lessons for CSOs

For CSOs there are no specific advantages derived from financial dependence. Rather, dependence increases the risk and threatens the viability of the social enterprise in the long term.

To seek the reduction of dependence through mechanisms outside the market, such as foundation contributions, can result in benefits in terms of support and knowledge transfer. However, this mechanism presents certain limitations. On the one hand, contributions from foreign entities are usually labeled for specific program items and therefore could bias the election of activities towards the preferences of the donor. On the other hand, agencies usually demand a complex and heterogeneous accountability, which represents a considerable cost in terms of administrative resources.

Resource generation through the market is likely to be more successful when it is developed according to core competencies, taking advantage of knowledge and accumulated experience of the CSO. Earned income opens the possibility of generating a surplus to aid population groups with lower

payment capacity, sustain non-profitable programs, constitute a contingency fund, and invest.

A potential risk, common in financial diversification through the market as well as outside of it, is associated with diversion from the mission. The focus on profitability and customer satisfaction can become a distraction from the social cause, and, although in the long term financial sustainability could lead the organization to a better fulfillment of its mission, in the short term it could cause it to move away from its priorities.

Maturity and institutional development are highly prized assets in consolidating diversification initiatives, because they empower the organization to develop mixed management of the mission and resource-generating activities (double bottom-line).

Cross-sector Lessons

- When examining the opportunities for diversified funding mechanisms, it is necessary to understand their structure in an integral way, in terms of mechanisms as well as sources.

- The alignment of the social enterprise with organizational strategy facilitates the balance between the generation of economic and social value both in the private and the public sectors.

- All funding mechanisms should be complemented by clear and prompt fund management procedures; otherwise, the application of resources is blocked along with the benefits for society and companies.

Appendix

Table 7.3
Financing Mechanisms in Social Enterprises Hosted in
Private Companies

Company	Country	Mechanism(s)
Acindar	Argentina	B3. Fund constituted by stocks donated by the founders and their generated dividends plus the annual donations to the Foundation
Alpina	Colombia	B1. Employee donations B3. Internal Budget
Antamina	Peru	B1. Members donations (other mines in the region) B3. 80% internal budget.
Arcor	Argentina	B1. Contributions received through alliances with other institutional donors. B3. Funds transferred from the company to Fundación Arcor
CANTV	Venezuela	A1. 1% of telephone card sales and the revenues of the public telephoning service to Fondo Social B3. Internal budget for Super@ulas
Cementos Lima	Peru	A1. 0.3% of the gross income.
CEMEX	Mexico	B3. Internal budget (CEMEX Cerca de ti)
Coca-Cola	Chile	B3. Internal budget (50% Coca Cola Chile and 50% bottling companies)
Grupo CSU-CCA	Costa Rica	A1. Fixed % from the gross annual profit A3. Cause-related marketing B1. Employees, suppliers and community donations.
Cervecería Cuauhtémoc Moctezuma-FEMSA Cerveza	Mexico	B3. Internal budget (100%)
Grupo Abril	Brazil	B3. Internal budget (100%)
Grupo Inditex	Spain	A3. Cause-related marketing B3. Internal budget
Hocol	Colombia	A2. Community (19%) B1. International agencies (19%) B2. Government (16%) B3. Internal budget (46%)
Ingenios Pantaleón	Guatemala	A1. 2.20 USD per metric ton of produced sugar
MRW	Spain	A1. 1% of the gross invoicing of all the franchises A2. Fee for service (at preferential rates)
Orsa	Brazil	A1. All the group's companies assigned 1% of their invoicing to the Foundation B1. Donations of various alliances (public, private, international)
Grupo D Paschoal	Brazil	A1. Sale of waste (self-funded environmental enterprise)
Ron Santa Teresa	Venezuela	A1. 1% from the profit margin B1. Donations from Corporación Andina de Fomento
Samarco	Brazil	B3. Internal budget (100%)
Tapsin	Chile	B3. Internal budget through a fund transferred from the company to the Foundation

Table 7.4
Financing Mechanisms in Social Enterprises Hosted in CSOs

CSO	Country	Mechanism(s)
Abrinq	Brazil	B1. Company and international donations B2. Public resources at a city, state and federal level
Asociación Chilena de Seguridad (ACHS)	Chile	A1. Sales of medical services to third parties, companies and alliances with competitors to reduce costs A2. Fees from beneficiary companies (by law)
Asociación Comunal de Salud, Agua y Medio Ambiente (ACOSAMA)	El Salvador	A1. Negotiations with companies (exchange of services for projects) A2. Fee for service B1. International Cooperation Funds (for expansion projects), donations in species from communities involved B2. Public funds through tenders and biddings (for expansion projects) at a local and central level
Caja Colombiana de Subsidio Familiar (COLSUBSIDIO)	Colombia	A1. Social service provision in five "business units" A2. Contributions from member companies B1. Donations from international cooperation agencies B2. Public tenders
Comitê para Democratização da Informática (CDI)	Brazil	B1. Company and international agencies and foundations donations
Corporación de Desarrollo Social del Sector Rural (Codesser)	Chile	A1. Sales of products and agricultural services B1. Company and community donations B2. Public subsidies per student and schools
Corrente Viva	Brazil	B1. International donations
Crear Vale la Pena (CVLP)	Argentina	1B. Member and collaborators fees 2A. International donations
Fe y Alegría	Venezuela	A1. Annual raffles A2. Collections of tuitions subsidized to parents (schools) B1. Private, company, multilateral agencies (including those of European cooperation) and foundations B2. State subventions (subventions for teachers' salaries and other expenses), as well as project contributions

Table 7.4 (cont.)
Financing Mechanisms in Social Enterprises Hosted in CSOs

CSO	Country	Mechanism(s)
Fundación del Empresariado Chihuahuense (FECHAC)	Mexico	A1. Interest collection from micro credits A3. Cause-related marketing campaign B1. Company and international donations B2. Matching funds from government for public projects
Fundación Proyecto Paria	Venezuela	B1. Donations from national and international organizations (Banco Interamericano de Desarrollo, Corporación Andina de Fomento, Fundación Interamericana, Unión Europea, Fondo de Población de las Naciones Unidas, Oficina Panamericana de la Salud)
Grupo Balear de Ornitología y Defensa de la Naturaleza (GOB Menorca)	Spain	A2. Member contributions B1. Community donations B2. Public funds
Hogar de Cristo	Peru	A1. Sales of products and services via business units A3. Christian marketing B1. Private, company and cooperation donations B2. Public funds
Instituto Brasileiro de Defesa do Consumidor (IDEC)	Brazil	B1. International donations from foundations and cooperation agencies
Instituto Nacional de Biodiversidad (INBio)	Costa Rica	A1. Contracts with private companies for transference of technology and entertainment, publishing activity, consulting services and incomes from INBioparque B1. Donations from bilateral agencies (Netherlands, Norway, Sweden and USA) and multilateral (World Bank and BID)
Intermón Oxfam	Spain	A1. Fair trade sales, publishing activities, financial incomes A2. Member fees B1. Private and company donations, heritage and legacies B2. Contributions from local administrations, Spanish government and European Union
Labor	Peru	B1. Ongoing donations from five international cooperation agencies and other donations for specific ad-hoc situations
Profamilia	Colombia	A1. Sales of products and services (70%) and financial revenues B1. National and international donations
Pro Vivienda Social	Argentina	A1. Investment in the credit portfolio of the housing improvement program A2. Fee for services (provision of gas and micro credits) B1. Donations from counselors and international agencies B2. Government contributions

Table 7.5 (a)
Market-based Mechanisms

	COMPANIES		CSOs	
	Advantages	Disadvantages	Advantages	Disadvantages
1. Sales of goods or services to the general public*	• Defining the amount to be assigned to the social enterprise helps to institutionalize it by reducing the discretional position that characterizes philanthropic and nonstrategic social enterprises.	• Given that the amount of resources to be channeled towards the social enterprise is left undetermined in principle, these can grow too quickly and overwhelm the recipient organization.	• Unlabeled resource generation to generate cross-subsidies for the social enterprise. • By relating the social enterprise with the resource generation, one takes advantage of the core competencies of the organization.	• Risk of deviating resources (human and financial) with regards to the management of the commercial entrepreneurship. • Competition versus lucrative companies that, due to their efficiency, can offer the same product or service at a lower price. • When the resource generation is not associated with the core mission and competencies of the organization, there is a risk of failing and spending resources in a wrong way, because the learning curve is steep. • There are ethical aspects to be considered when entering the market.
2. Fees from beneficiaries of the social enterprise	• Not common mechanism in companies. Although, because this is about initiatives from the pyramid base, resources associated with the creation of markets can be generated, as well as the promotion of co-responsibility and empowerment on part of the beneficiaries or customers.	• This option is about a commercial initiative with a significant externality (the same as those that can be classified at the base of the pyramid). There is a risk of concentrating on the business benefits and neglecting the social dimension.	• By directly relating the social entrepreneurship with the generation of resources, the core competencies of the organization are taken advantage of. • By involving the beneficiary community in the financing of the service that they receive, a higher level of commitment is developed, and the paternalistic culture is opposed by a new culture of empowerment and co-responsibility. In addition, a feed-back channel regarding performance is established.	• Normally, community resources are not enough to finance the provision of social services.
3. Cause-related marketing	• Development of customer loyalty and brand positioning. • Community awareness. • The role is of intermediary and not as central actor. • Lower costs / investment. • Association with civil organizations normally provides legitimacy and credibility.	• Weakening of initiatives designed to be permanent. • Could be subject to criticism if it is excessively advertised without giving the clients and the CSO enough credit. • Reduced control in terms of management of the social enterprise, because the funds are, in general, channeled to an external entity. The former can be minimized by applying labeled donations schemes. • The credit is shared with clients and CSO, but the company can also draw benefits from the campaign if articulated within a consistent communication strategy.	• The channels and collections infrastructure of the private sector can provide unique scope, efficiency and scale. • Tend to lead to awareness and positioning benefits for the CSO, enabling it to receive more economic resources from the donors.	• Risks associated with sharing the brands. • One of the advantages can be the attraction of more donations given the awareness and credibility, but, at the same time, an opportunity cost in terms of the attraction of other donations from those who believe that the organization already receives enough resources through its popular campaigns.

(*) In the case of companies, this mechanism refers to those that label certain percentage of their income, sales, profit or production, for the social enterprise.

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Table 7.5 (b)
Non-market Mechanisms

	COMPANIES		CSOs	
	Advantages	Disadvantages	Advantages	Disadvantages
1. Donations in cash or species (personal, company, multilateral)	**Employee Donations** • Personnel Motivation. • Sense of belonging of CSR activities. • CSR integration to the organization's culture. **Community Donations** • Community awareness. • One acts as an intermediary and not as a central actor, this promotes shared responsibility. • Less costs / investment.	**Employee Donations** • If the social cause selected is not aligned with the preferences of company personnel, the campaign may deliver disappointing results in terms of motivation and fund raising. **Community Donations** • It could be subject to criticism if it is excessively advertised without sharing the credits • Lower control in terms of the amounts invested • Shared recognition • Higher transaction and decisions costs, as well as accountability	**Company Donations** • Can constitute the first step for a greater scope and depth collaboration, one that involves exchange of non-generic resources. **International Donations** • Normally they come together with technical support and training, which turns out to be positive for a CSO in follow-up, growing or transition stage. **Community Donations** • By involving the general society a positive externality is generated in terms of awareness with regards to the cause.	• Company donations are normally associated with the available resources, so they are vulnerable in the event of an economic crisis or when decisions are changed, unless the company is within a frame of a high alignment financing mode. Besides, receiving resources from a controversial company can result in the damaging of the image/credibility. • International donations tend to be labeled for specific ends and, as a consequence, there is a risk of biasing the selection of activities towards the donor's interests. On the other hand, they tend to require accountability mechanisms that are very demanding and heterogeneous, which represent a considerable investment of management time.
2. Public Resources (credit line, contracts for provision of services, contributions or subsidies)	• Not a very common mechanism in companies, although when it has to do with a problem that goes beyond the responsibility of the company, it is positive in terms of co-responsibility and continuity by mobilizing resources from the corresponding government entities.	• Not a very common mechanism in companies, one of the disadvantages is the instability of the political systems, especially in Latin America, which represents a risk for the channeling of resources	• By receiving resources from the government for the financing of public services associated with the accomplishment of unsatisfied social needs (specially those associated with human rights) a value is generated in the sense of not substituting but complementing the responsibilities/actions of the government.	• Vulnerability and uncertainty attached to government's decisions. • The bureaucracy with regards to the application and accountability forms.
3. Internal budget from companies (generation or mobilization unlinked to the social enterprise)	• There is a higher control over the investment. • Lower accountability for external accounts. • Lower transition costs associated with maintaining alliances.	• Opportunity cost associated with the generation of synergies and the advantages of a wide participation. • Higher costs / social investment.	• The CSOs that have a trust fund can dedicate in a more effective way to the collection of resources directed towards financing just a part of their operation.	• Having a vast trust fund can jeopardize the efforts required to mobilize additional resources, together with the opportunity cost associated with the intangible advantages of mobilizing different actors.

Notes

1. A wider conception of the topic would also include the mobilization of resources in species. Although reference to them will be made in some cases, we will focus mainly on monetary resources.

2. Larger coverage takes account of geographical expansion, increase in number of beneficiaries, and additional programs, among others.

3. The mechanisms can be classified in other ways according to the research emphasis or objectives; for example, in terms of the payment from beneficiaries versus third parties. Our selection is based on the importance of designing a mixed mechanism that considers the advantages of generation through the market without ignoring the mobilization of resources outside the market.

4. Although this revenue is derived from commercial transactions, it is considered as "outside of market," since this resource generation is not connected in an explicit way to the social enterprise. This mechanism refers to the companies that dedicate a certain percentage of their income, sales, profit, or production for the social enterprise.

5. The six mechanisms with a great variety of sources.

6. The terms have a deliberately vague definition to indicate that they are formulated in reference to a dependence model in the first case and a diversification model in the second. A social entreprise will seldom reach a level of maximum diversification.

7. Steve Rochlin et al., "Putting the Corporation into Corporate Responsibility," *AccountAbility Forum,* no. 5 (Spring 2005).

8. For further details regarding the appropriate structure to manage a social enterprise, see Chapter 5.

9. The "open faucet" expression refers to the reactive position for budget allocation in the face of every request from the community.

10. Producer of Corona beer.

11. The companies are CANTV, Cementos Lima, Grupo CSU-CCA, Ingenios Pantaleón, MRW, and Ron Santa Teresa; see specific details in Table 7.3.

12. The extra rate was paid by most of the companies of the state, although there was a possibility of avoiding the payment through a legal process called "juicio de amparo."

13. The state payroll tax (ISN) was established by the state government (as in other states) when the assembly plants arrived. This was a way to retain locally some of the generated resources.

14. Lee Davis, *The NGO Entrepreneur: Nonprofit in Purpose, for-Profit in Approach* (Institute for Soviet and American Relations, 2004 [cited December 21 2005]); available from http://www.isar.org/pubs/ST/NGOselffunding48.html.

15. Ibid.([cited).

16. Ibid.([cited]).

17. Jerr Boschee, "Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship" (Washington, DC: National Center for Nonprofit Council, 1998).

18. Gregory Dees, "Enterprising Nonprofits," *Harvard Business Review* (January 1, 1998), 135.

19. Jerr Boschee analyzed the success of CSOs that have launched initiatives that generate revenue through the market. In his study he mentions two types of initiatives: a) "affirmative" business created to generate employment, competitive revenues, and opportunities for the disadvantaged, and b) direct service businesses created to "save the target population," such as school dropouts, terminal patients, etc. Jerr Boschee, "Social Entrepreneurship: Some Nonprofits Are Not Only Thinking the Unthinkable, They're Doing It—Running a Profit," *Across the Board: The Conference Board Magazine,* (March 1995).

20. According to Boschee, the failures are most likely to happen when the CSO's start businesses about which they do not know anything, instead of developing with base on their core competences. Ibid.

21. The above mentioned describes a situation of "donor fatigue" together with the higher development level reached by Costa Rica.

22. Profitable activities included the exploitation of agricultural land in the region, training courses in the agricultural sector, and commercialization of products (cheese, vegetables, pheasants, milk, pig).

23. Preventive health tests, technologies for risk prevention like ergonomics, development of preventive programs, and so forth.

24. The business units were: housing, education (schools), and culture (museums, bookstores, theaters, movable libraries), social marketing (22 supermarkets and 53 pharmacies), savings and loans, and health (clinics).

25. The best evidence of its performance is that the rate of employment of its graduates reached 82%, while originally it was estimated at 10%. Another example of the stability of the system was that during more than 20 years it never registered a strike.

26. In contrast with those that provide public goods, for which it is harder to establish such direct mechanisms as fee collection or sales of goods and/or cause-related services.

27. Ellen Stiefvater, *Entrepreneurial Community Development: Exploring Earned-Income Activities and Strategic Alliances for Community-Development Nonprofits* (Joint Center for Housing Studies, Harvard University, November 2001 [cited December 21 2005]).

28. Foster and Bradach describe the topic of exaggerated expectations regarding income generation characteristics of the CSOs in the American context. William Foster and Jeffrey Bradach, "Should Nonprofits Seek Profits?" *Harvard Business Review* (February 2005).

29. Boschee, "Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship."
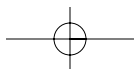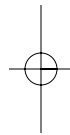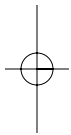
8

Governance in Social Enterprise

Governance design, leadership, and management rank among the principal challenges faced by social enterprises. Several research studies reveal that boards play a crucial role in successful CSOs, for they provide strategic direction, a counterbalance to the power of people in charge of program implementation, and a vision that both inspires and guides the individuals involved in and mobilized to support these ventures.[1] In the business arena, corporate governance has received increasing attention, especially after recent scandals resulting in the demise of top companies previously viewed as exemplary in their performance. However, issues relating to the specific role and behavior of governance in companies' social enterprises have not yet been subject to study. Our research has explored both CSOs and corporate social venture governance models, identifying particular features and useful practices in successful initiatives.

Specifically, our analysis has revealed four significant aspects in social venture governance models implemented by companies and CSOs. First, social venture governance formats depend on how closely related ventures are to organizations' mission and strategy. Second, there is significant continuity in governance composition—board members hold their positions for many years, and membership turnover in governance structures is low. Third, governance body members tend to add value to their social enterprises by contributing to the legitimacy, credibility, capabilities, and economic resources required for their development. Finally, as opposed to common recommendations found in normative literature, sample cases have shown that governance body members may be involved in executive tasks, while organization executives may be involved in governance tasks.

Here we initially discuss the meaning of governance in organizations and the elements considered in its analysis. Then we explore governance attributes found in sample social enterprises and establish possible links to their success. Last, we suggest recommendations for successful management of social enterprises.

Although the significance of good governance is widely viewed as a crucial factor for institutional performance, the notion of governance calls for some clarification, for it is often unclear and undifferentiated from other

aspects of strategic leadership. This is especially true in CSOs, where governance is frequently confused with administration or management, as seen in the regular by-laws used for legal incorporation in several regional countries. An organization's governance is expressed in the formal authority and actual distribution of influence among its members as regards its core decisions.[2] Thus, the term "governance" is associated with two different meanings: one that relates to the definition of who has final responsibility and is legally authorized to make decisions and to clarify the entity's rights and duties, and another that focuses on the distribution of actual power to make an organization's fundamental decisions.

The role of governance bodies involves making the fundamental decisions that determine organizations' purposes, strategies, and goals, as well as enabling the allocation of their collective resources to reach those goals.[3] Hence governance bodies should focus on general, broad, and core policies, rather than on operating decisions that have less significance for the entire organization. Organizational performance depends largely on the existence of adequate performance structures and processes, for both governance and management. The latter refer to the distribution of authority and responsibility in the execution of tasks and activities intended to implement the policies, strategies, and decisions made by governance structures, as well as to the organization of core and support activities involved in value creation.

Although the set of issues related to organizations' governance mainly depends on the context, mission, and development phase of the organization, primary governance responsibilities include mission, strategy, performance monitoring and control, and accountability.[4] Thus governance functions carry the authority to:

- Determine or revise organizations' vision, mission, values and core strategies;
- Assess organizations' results as related to these tenets;
- Establish fundamental institutional policies;
- Allocate major organizational resources;
- Set the mechanisms used to delegate authority within the organizational structure and among the actors.

In the corporate world, it has been established that the most important governance function is to monitor, guide, and evaluate corporate strategy and top management teams.[5] Governance bodies effectively contribute to business success when they live up to the following responsibilities:

- Setting and monitoring corporate strategies;
- Approving major financial decisions;
- Recruiting and assessing CEOs and ensuring executive succession plans;
- Providing counsel and support for CEOs;
- Assuring compliance with current laws and regulations, as well as ensuring risk prevention.

In the field of CSOs, normative literature[6] suggests that although governance structures and processes may vary according to organizations' type, size, and stage of evolution, governance responsibilities are not dependent on specific organizations' features. A vast bibliography refers to CSOs' governance responsibilities, which may be summarized as follows:

- Setting and revising organizations' mission, objectives, and major strategies, and analyzing their accomplishments and results;
- Establishing key institutional policies;
- Ensuring the formulation of a suitable strategic plan;
- Approving and monitoring major programs and services provided by the organization;
- Allocating adequate resources and ensuring economic sustainability;
- Monitoring financial performance and protecting the organization's net worth;
- Assuring compliance with legal requirements;
- Recruiting, supporting, and evaluating the individual that will have overall managerial responsibilities;
- Promoting the organization's public image, acting as a link between society and organizations, and being accountable for the actions of the organization;
- Strengthening and assessing its own performance.

Clearly, this list of responsibilities details and specifies our initial governance definition and prompts board members to go beyond traditional governance duties to perform several roles in addition to that of trustees, such as organizational ambassadors, fundraisers, and investors.

Both in the worlds of CSOs and businesses, proposals and recommendations have surfaced to reformulate governance structure operations.

Some analysts state that responsibilities in the corporate arena are often inadequately fulfilled for reasons such as limited dedication or insufficient information available to board members. As Kaplan and Nagel observe,[7] governance body members' responsibilities are increasing, especially since the recent crises experienced by traditional corporate governance models, and companies are now challenged to design suitable mechanisms and processes to enhance their work—though this does not mean that members should work more hours or more intensely. To remedy this situation some researchers stress the need to modify governance meeting processes and focuses[8] in order to direct governance attention to corporate strategy design and results. Others suggest that board independence should be ensured through recruiting outside members with no interest in the company, limiting the number of company executives serving on boards, separating the roles of company CEO and board chair, imposing greater regulation of board auditing committees, stimulating more involvement of stockholders and investors in boards, redesigning the governance member selection and appointment process, or granting greater authority to stockholders over boards.[9] Other authors encourage organizations to revise governance body design periodically—its composition, structure, processes, and culture—to improve responsibility compliance.[10]

Along these critical lines, civil society governance performance analysts point out that these bodies often restrict their responsibilities to a passive or traditional role, focusing on report analysis and approval, management supervision, and the pursuit of specific activities of interest to each member.[11] These analysts contend that the increasingly important role played by these entities in society demands that board members focus on strategic tasks in order to deliver effective governance, a job which requires new commitment rules to ensure responsibility fulfillment. These strategic tasks feature four characteristics: 1) they refer to crucial issues for organizations' future; 2) they zero in on the quest for sound results linked to specific deadlines; 3) they include clearly defined success measures, and 4) they require the engagement of internal and external actors. For instance, meeting a fundraising goal to acquire a new organizational site, or securing the authorization of a regulatory agency to continue operations, are strategic tasks that call for top leadership involvement. This strategic approach implies the recognition of governance bodies as one of the major leadership sources in organizations, which should work jointly with management teams. Unlike the corporate world, which seeks to strengthen governance bodies' oversight functions to ensure their performance as a counterbalance for executive management, the nonprofit world has stressed[12] the role

of governance body members as managers' partners in organizational leadership and as a source of leadership for organizations.

Major Findings

Our analysis of the social venture case studies permitted us to explore various governance models, taking into account several aspects and dimensions, including governance body types, term duration and member turnover, board composition and roles, and work distribution in governance bodies.

While several authors had identified and discussed governance differences between civil society and business organizations,[13] our analysis focused on governance model attributes shared by social enterprises in both spheres, studying the potential relevance of governance structures and process for value creation.

Our major findings and conclusions are:

- The governance structure of social enterprises depends on their centrality to organizational mission and strategy.

- Most social enterprises in our sample feature continuity in the composition of their governance bodies.

- Governance body members create value for their ventures by enabling access to necessary legitimacy, credibility, capabilities, and economic resources.

- Social ventures register some role-overlapping between governance members and management teams, with governance body members involved in managerial tasks and organization executives taking part in governance processes.

Organizational Mission and Strategy

In CSOs, governance functions are carried out by structures or bodies that are usually staffed by volunteers and named according to their legal status and home countries—Board of Directors, Administrative Council, Governance Committees. In for-profit businesses, governance bodies are usually called Boards of Directors.

Normative literature on CSOs generally agrees that effective governance is based on a collective effort to establish adequate processes for actions that procure advancement towards shared goals consistent with organization's mission.[14] This means that governance should be exercised by a collective body that has been assigned authority and not by individual members acting independently.[15] These structures have several variants.

In corporate literature modern corporations are often viewed[16] as the focal point of contracts between several stakeholders who have incentives to collaborate, but who may also try to use corporate resources for their own objectives at the expense of collective interests. Several organization formats and corporate governance systems have been created throughout the world to mitigate the risks of this type of "opportunistic behavior." In for-profit companies, although the traditional vision claims that governance members' key responsibility lies in maximizing the value created for shareholders and therefore the main fiduciary relationship hinges on them, a broader outlook acknowledges that governance bodies should also respond to other stakeholders, such as investors, regulators, employees, customers, and communities. Regardless of which interests are upheld or safeguarded, there is increasing consensus around the need to consider the perspectives of relevant stakeholders involved in value creation, including those who seek to maximize profits, those who participate in its creation, or those who are affected by the entire process. As a recent survey of business school faculty points out,[17] issues such as board independence from management, board member appointments, term limitations, and internal stakeholder group engagement require more research to determine their contributions to corporate performance. Likewise, governance body formats and rules are the focus of increasing discussion. When corporate social enterprises´ governance are considered, organizational format takes on heightened complexity, for these ventures are not usually perceived as being part of companies' strategies or associated with major responsibilities of corporate governance bodies.

Because one of the key functions of governance in social enterprises is to ensure their social value creation and to monitor their performance as it relates to that purpose, organizations need to build adequate structures to accomplish these tasks. The design of adequate governance and management structures is one of the most significant challenges faced by organizations, and hence it becomes relevant for both CSOs and corporate social enterprises.

At CSOs, social venture development is central to their mission and strategies, so governance bodies are in charge of it. At companies, two different social venture governance schemes can be found: 1) social venture governance is one of functions undertaken by companies' overall governance bodies, and 2) social venture governance bodies are separate from corporate governance bodies, but important members are present in both.

The first scheme may be found in some companies where CSR strategies are embedded in the corporate management model; then company and

social venture governance members are not differentiated. At Ron Santa Teresa, for instance, the company Board regularly monitored the situation and progress of each corporate social initiative, since these were viewed as part of the company's business and its value creation. In such cases strategic decision-making, resource allocation, and corporate commitment to social enterprises are all enhanced through direct leadership involvement.

The second scheme, separate governance for social enterprises and core businesses with key members overlapping, also takes several forms. One format consists of a body that formulates social enterprises' strategies, monitors their performance, and supports their executive managers. This scheme is illustrated by Cemex, a company that changed its community involvement approach and aligned its social intervention model to its business management model. After setting up a Communications Committee made up by the company's president and area vice presidents, the company reformulated its social responsibility strategy and resource allocation. Other companies preferred to create donor organizations to enhance their social responsibility strategy development and implementation (Fundación Acindar in Argentina, Fundación Pantaleón in Guatemala, Fundación Hocol in Colombia, Minera Antamina's Asociación Ancash and Cementos Lima's Asociación Atocongo in Peru), but governance bodies at both social and business organizations overlap by having members in common. The case of Cementos Lima clearly illustrates this approach. When the company analyzed its relationship with the community that lived next to one of its major plants, it decided to change its strategy to contribute more effectively to community growth. To this end, the company created the Atocongo Association, whose board included several company executives (including one of its owners) and was chaired by its general manager. These cases present greater organizational structure development, which ensures better attention to social enterprises, deeper member specialization, and more complex and diversified initiatives. It should also be noted that this approach is more common among larger, more established business companies.

Continuity in the Composition of Governance Bodies of Social Enterprises
The cases studied by SEKN show that continuity in governance bodies where social enterprises' core policies and strategies are defined is a frequent attribute in successful ventures. Given the complexity and creativity involved in social value creation, it is easy to understand why continued presence of governance members becomes an asset, for it gives the enterprise the benefit of accumulated learning.

Governance body composition continuity may take various forms, but, whatever the format chosen, it helps to endow social enterprises with a long-term perspective. Among our research case studies, continuity schemes included the following variants:

- In private companies, continuity is shown by the presence of company founders or owners on boards.
- In public companies, the continuity of socially committed corporate leadership provides the required stability and sustained investment needed to draw results from social enterprises.
- In CSOs, it is usual for the founding group or social entrepreneurs that launched the initiative to remain in the governance body for a long time, thus providing a stable framework for major policies and strategies.

When there is turnover in governance body composition, other institutional mechanisms can ensure continuity in ventures' core decisions. This is clearly seen in global companies, where, although there may be changes in local leadership, ongoing application of corporate policies and guidelines set by company headquarters provides the continuity conditions that ensure social investment sustainability. Another scheme is found in CSOs: when there is a higher controlling body or hierarchy that launched a specific initiative or that oversees a social venture's governance body, no damage occurs if there is immediate or direct governance turnover.

At most CSOs included in the sample, by-laws allow for members' indefinite re-election, thus paving the way for governance body stability. In a few cases re-election is explicitly banned (Fe y Alegría), and in another case there is a five-year maximum stay for governance body members (FECHAC). Setting time limits for governance body members has been viewed as protecting organizations from self-perpetuating leadership roles; however, this idea has not been adopted by most CSOs included in this study.

Most organizations registered low turnover rates in their governance bodies. Member stability in governance bodies is perceived as beneficial for several reasons. For instance, while for Profamilia low turnover "contributes to organizational learning on practices enabling mission development," for Colsubsidio "it is a success factor, since, due to the complexity of the issue at hand, long-term strategies and goals are necessary, and individuals' permanence guarantees approach stability and strategy compliance."

In some social enterprises a higher body or hierarchy overseeing their governance bodies is usually linked to other entities that originated the

social venture. This scheme allows some turnover in governance body composition, as the higher, supervising body ensures continuity of core policy and strategy. Two examples illustrate this scheme: Chile's Codesser, in which the founding industrial association has retained a supervising role, and Fe y Alegría's national offices at the Society of Jesus (the Jesuit Order) to which local boards report for crucial decisions (for example, the appointment and removal of National Directors). These practices contradict Anglo-Saxon normative literature on nonprofit governance.[18] For those authors, setting standards for governance body members' permanence, such as limiting the number of periods to be served at the board, the number of terms to serve at the same position, or the specific duration of terms, is viewed as essential to promote internal democracy, encourage community involvement, facilitate organizations' adjustments to environmental changes through the recruitment of new individuals with different outlooks, and avoid the risk of organizational "appropriation" by governance body members. This finding is relevant to understanding how individuals coming from the corporate world must adapt to CSOs' governance bodies in order to join in.[19] In these cases, longer board terms ensure that members capitalize on the learning required to operate in these kinds of ventures and make maximum use of the limited pool of potential candidates interested in undertaking governance duties in these organizations.

Extended members' continuity and permanence also characterize sample companies. In many cases, company founders or owners are on the corporate boards. Such is the case of the Orsa Group, whose founder, Sérgio Amoroso, became the driving force to turn social involvement into a core business feature, even when the company was rising to the challenge of taking over a risky venture, Jarí Celulosa in northern Brazil. This is also common in family-owned companies, such as Arcor and Acindar in Argentina, the Abril Group and D. Paschoal Group in Brazil, Alpina in Colombia, Tapsin in Chile, MRW and Inditex in Spain, Ron Santa Teresa in Venezuela, and others. For public companies, socially committed corporate leadership continuity provides the required stability and sustained investment needed to work systematically in social enterprises and to optimize results, as in the case of Cemex in Mexico or CANTV in Venezuela. Specifically, CANTV's Social Fund Committee, endowed with an allocated share of revenues from some company products, included the company's chairman and several top executives.

Telefónica de Brasil shows how global companies may adjust corporate policies and guidelines set by headquarters to suit local conditions. The Brazilian Risolidaria portal development adjusted the portal's global

model to accommodate Brazil's third sector characteristics and needs. In this company, worldwide policies and guidelines provide a sense of continuity and consistence that promotes medium-term sustainability for social investments.

Several organizational effects of continuity emerge as relevant to social enterprises. First, governance body members' prolonged stay may contribute to a deeper and specific knowledge of organizations' focal issues. Second, member continuity provides a sense of stability and long-term outlook for social enterprises. Third, unchanging governance body composition may effectively enhance economic resource mobilization towards social enterprises by boosting donors' trust as to transparent allocation. These outcomes bear a significant influence on both civil society and corporate organizations' capabilities to accomplish visible results through their social initiatives.

Governance Body Members Provide or Enable Access to Critical Assets

Governance body members enhance the social venture's performance by providing legitimacy, credibility or critical capabilities, as well as access to networks that supply economic resources or political support. The importance of those assets cannot be overestimated, given that—as seen on Chapter 3—the promotion of legitimacy and the development of organizational capability are among the cornerstones of any social enterprise's "strategic triangle."

Legitimacy. In some cases, the primary resource for a social venture is an intangible attribute, such as legitimacy among critical stakeholder groups, that is, "permission" or validation of decisions regarding mission, strategies, and actions.[20] How is legitimacy built? A starting point for this analysis involves an understanding of the relationship between governance bodies and organizations' partners or members.

In CSOs, the relationship between governance bodies and organization members is usually characterized as "fiduciary." [21] Basically, in a fiduciary relationship, some individuals are considered trustworthy and are designated to look after the resources or net worth transferred to—or produced by—an entity. Thus governance body members agree to act on behalf of others, to whom they are legally and morally bound. Fiduciary obligations entail loyalty, honesty, and a bona fide effort to act in the organization's best interest. These relationships are based on the recognition that governance bodies represent a larger group of people, who legally and morally "own" organizations and to whom these bodies are accountable.[22] Since

CSOs lack shareholders, the notion of "collective ownership" best describes their format. In for-profit organizations, by contrast, governance bodies may be viewed as a mechanism to solve "agency" issues surfacing between owners or stockholders and managers, especially as a means to sort out the contract issues that emerge when shareholders cannot control management directly.

Hence all governance bodies should explore and answer the following questions: How does the organization legitimize its decisions for its critical stakeholders? Who grants authority to an organization's governance body? To whom should governance bodies and their members be accountable? It is necessary to clearly identify organization owners, institutional authority and delegation, as well as organization beneficiaries in order to determine fiduciary responsibility boundaries, moral and ethical accountability, and legitimacy-granting groups or actors. These definitions play an essential role in organizations' capacity to develop a stakeholder assessment approach. From a broad viewpoint, in most CSOs the community as a whole is the ultimate beneficiary to whom organizations must be accountable—in addition to the requirement that civil associations must report to their member assemblies, while foundations have less specific rules in this regard. In foundations resources are "designated" to goals or purposes set by by-laws, so governance body members are entrusted with "safeguarding" the accomplishment of the goals for which resources were donated or foundations were created. In a way, governance body members must act on behalf of potential beneficiaries, who will receive the collective benefits that have been intended as the purpose of these institutions. Thus governance body members should be accountable to them, as well as to founders, the individuals contributing to foundations' social goals, and control agencies designated by the state. In the case of for-profit organizations, governance body accountability depends largely on the definition of stakeholders whose interests must be safeguarded and whose legitimacy must be obtained; these are different in different environments and cultures.[23]

In organizations that have included critical stakeholders' representatives (from business companies, CSOs, workers, or beneficiaries) in their governance bodies, existing policies and strategies are acknowledged as legitimate and accepted by these groups and other parties that must provide their support to ensure social venture success. The stakeholder engagement with the governance body effectively validates the policies and strategies adopted by organizations.

As several sample organizations show, in some cases governance body members greatly contribute to building legitimacy among stakeholder groups. Legitimacy is understood as third-party recognition of organizations' decisions, positions, and beliefs as valid. For example, Chile's Asociación Chilena de Seguridad (ACHS) and Codesser, Peru's Asociación Labor, and Mexico's Fundación Comunitaria de Oaxaca all have included relevant stakeholder representatives (from companies, CSOs, or workers' and beneficiaries' groups) in their governance bodies. Thus policies and strategies are legitimized among those who must provide their support for social venture success. This kind of legitimacy elicits endorsement—which later translates into economic support/approval—which promotes the cross-institutional collaborations often required to implement initiatives, or encourages the engagement of beneficiaries in venture activities.

The cases of ACHS in Chile and Colsubsidio in Colombia describe another possibility for nonprofits to achieve legitimacy through governance body composition. In both cases, governance bodies are made up by businessmen (employers) and workers (major beneficiaries), thus contributing to ensure that decisions effectively "safeguard" major stakeholders' interests and enable a consensual and balanced decision-making process. Both organizations view beneficiary (worker) involvement in governance as a benefit or distinctive feature for several reasons: for ACHS, "workers' [presence] guarantees an efficient service to associates," while for Colsubsidio, "our board composition enables a true example of consensus, in which traditionally opposing views (workers and employers) find a common ground." The inclusion of critical stakeholders in governance bodies helps organizations to relate to their authorizing environments,[24] thus contributing to the construction of a well aligned "strategic triangle" (see Chapter 3).

Considering stakeholders' concerns and needs and reaching consensus through a governance body constituted by all sectors involved are ways to provide legitimacy to the policies and strategies adopted by organizations. In turn, this legitimacy ensures the support of those who must collaborate in social venture implementation. An interesting example in this regard is the case of Spain's MRW. This company designed a governance body for its franchise network that included top management officials from the franchising organization and representatives from eight franchises chosen at random (out of almost 700 franchises) for eight-month periods. This body, called the Ethics and Arbitration Committee, decided the introduction of all new services, network incorporations, and other primary definitions. This Committee, made up by representatives from across the board, constituted a mechanism to make consensual decisions on new

social initiatives, thus securing their legitimacy among the stakeholders involved in their successful implementation.

The presence of top management in social enterprises' governance bodies also provides legitimacy among other company sectors. Such was the case for the Venezuelan telecom company CANTV, when its CEO and other top executives joined the committee in charge of social initiatives. Their engagement sends positive signals across the organizations regarding the significance of social enterprises for the company.

Credibility. When the public interest pursued by an organization needs to be especially safeguarded, and circumstances arise that may jeopardize the organization's trustworthiness or the belief that the organization seeks to protect a collective interest (stated in its mission) at the expense of its employees' or governance body members' interests, getting renowned business, social, political, and academic leaders to join the governance bodies may enhance organizational credibility.

In Peru, the case of Hogar de Cristo illustrates how a nonprofit used its governance body composition to rebuild its credibility after a severe crisis. After facing charges for wrongful use of government funds—later proved to be unfounded—and discovering serious organizational flaws, the organization reorganized its governance body by recruiting outstanding individuals from the business, social, political, and academic sectors and thus managed to boost its damaged credibility. Another alternative to enhance organizational credibility is to involve people who "reflect" or share the characteristics of specific stakeholder groups. Profamilia, in Colombia, sought to balance its governance body composition in terms of gender, age, geography, and education, prioritizing a strong commitment to the venture's mission. For an organization like Profamilia, which competes with for-profit providers in the sexual and reproductive health market, governance body composition may become a sound means to buttress credibility and to stand out among its competitors.

Critical capabilities. Governance bodies may include members who contribute specific technical and professional skills for organizations' effective performance. In many cases, these individuals are unavailable through recruiting. Thus, for example, in Argentina's Fundación Pro Vivienda Social (FPVS) Board members come from different sectors and provide—either directly or through their network—the expertise and knowledge required by the organization to implement a micro-loan program for housing. FPVS' governance body gathers representatives from the financial sector, specialists on social issues, and housing experts. These professional and technical skills are very scarce and unavailable for many CSOs. Engaging

people with these capabilities in governance bodies effectively enhances institutional decisions and actions. A similar case is that of Intermón Oxfam, in Spain. The trustees in its board have different areas of expertise that are crucial to the organization's performance (marketing, economics, law, foundations, education, and so on). Similarly, Chile's Codesser seeks to recruit governance body members with academic and business standing in order to tap their knowledge and experiences to manage agribusiness technical education centers. Incorporating business-oriented people into CSOs' governance bodies is often viewed as a success factor, for their experience may be helpful to bring to these organizations an orientation towards efficient management.

Access to networks. To enhance social venture performance, both companies and nonprofits seem to need their governance bodies to be able to access economic and political resources through personal, professional, and business connections.

It should be noted that in the sample's CSOs, very few governance bodies included important donors (only at FPVS, FCO, Hogar de Cristo). At FPVS, some governance body members contributed the necessary resources for its initial capital fund, which enabled the organization to launch its start-up micro-loan operations. At FCO, Associates' Assembly members donated funds through their membership fees, while at Hogar de Cristo governance body members provided financial support for the organization during bad times. Still, more than direct contributions, social enterprises need their governance bodies to provide them with access to other individuals or organizations that may contribute the resources required. Through their personal, professional, or business connections, governance bodies help organizations to raise the necessary resources and materials. Such is the case of FECHAC in Mexico, whose governance body members have the political, social, business, and institutional connections to secure resources. It seems, therefore, that the Anglo-Saxon motto that describes CSOs' expectations for their governance body members—*Give, Get or Get Off*—should be adjusted slightly to read, instead, *Get, Help to Get, or Get Lost.*

Some organizations with long-standing track records have learned this lesson and applied it to their new ventures. They have built their governance bodies by selecting candidates with the ability to mobilize economic resources. For example, at the ventures initiated by the Society of Jesus (such as Spain's Intermón Oxfam, Peru's Hogar de Cristo, or Venezuela's Fe y Alegría), founders clearly understood the need to engage renowned local individuals for their governance bodies, on account of

their social, professional, or institutional connections or their potential monetary contributions. The same goal was pursued by Mexico's FCO, whose inception was driven by two international organizations (MacArthur and Rockefeller Foundations). Early on, both organizations engaged a founding group consisting of individuals with significant connections in the local business community to ensure economic resource mobilization for organizational sustainability.

In business companies, governance body composition for social enterprises or corporate social responsibility strategies follows a similar rationale: trying to enlist engaged members with access to economic resources and influence on corporations' budgetary allocations. Because of their very nature, companies do not usually differentiate—as CSOs normally do—between volunteer managers and executives on retainer. Still, governance body composition largely contributes to corporate social venture success by mobilizing economic resources.

Both CSOs and business companies turn to Advisory Councils or Consultation Committees to attain pivotal capabilities for their organizations or to expand their access to resource-providing networks. Advisory or Consultation Committees enable governance structures to engage people who supply their experience, connections, and networks, professional and academic credentials, sound image, or credibility to organizations (though they have no decision-making responsibilities), thus broadening their resource portfolio to enhance their governance quality. An Advisory Council may also improve the bond between organizations and communities by bringing in the ideas of other stakeholders, as well as reaching out to other organizations that operate in the same communities or that may collaborate through networks and alliances.[25]

The Instituto Brasileiro do Defesa do Consumidor (IDEC) illustrates the use of this mechanism. Although its Executive Council consists of a chairman and seven members chosen by full associates, its Consultative Committee includes 25 members who are meant to support IDEC activities and its links to several stakeholders in the academic, business, or media arenas. A similar mechanism is used by Costa Rica's Instituto Nacional de Biodiversidad (INBio), which has called upon an International Advisory Committee made up by renowned scientists and scholars to enrich the organization's strategic thinking and to strengthen its ties to the international scientific community, thereby reinforcing its legitimacy and credibility among potential donors.

This type of advisory or consulting body is used for similar purposes in some companies. Chile's Coca-Cola Foundation gathered a group of

prominent national personalities (former cabinet members, academicians, businessmen) to build a Consulting Committee that offered advice and new ideas to the organization's Board and Executive Committee. In this way the Foundation was able to secure its access to expert knowledge, involve individuals in program implementation and gain outside legitimacy. In Spain, Inditex's Social Council was created to advise the board on corporate social responsibility and to institutionalize communications with company stakeholders. To this end, the Social Council included outstanding Third-Sector and academic experts working on social and environmental issues.

Role Overlap between Governance Members and Management Teams
From a traditional standpoint, governance and execution roles should be clearly differentiated, since this separation contributes to the establishment of control systems and balanced management models for effective organizational performance. In this light, governance body members should

Table 8.1
Member Involvement in Governance Bodies

	Low Involvement	High Involvement
CSOs	Governance body members are rarely involved in daily operations, and the organization endows its executive director with great autonomy to manage its structure. The executive director is also significantly involved in core policy and strategy formulation.	The president (chairman) leads the organization and is also responsible for managing its structure. The president-founder is greatly involved in daily organizational supervision. There is an executive director-founder who engages governance body members for strategic tasks. Governance body members are also responsible for specific operating areas.
Companies	Social initiatives are undertaken with low company board involvement. The board oversees and maintains overall control on company operations and performance.	The company founder (or turnaround leader) initially drove social venture development and is directly involved in its launching. Company board members join the Foundation's board or are in charge of the area that manages social ventures.

remain detached from organizational management. Contrary to these views, however, sample cases show a wide range of governance member involvement in several implementation aspects, as mapped in Table 8.1.

Glancing first at CSOs, we find three major schemes for high governance involvement in management: presidents (board chairmen) who lead organizations and are involved in management, chairmen who also serve as executive directors or general managers, and governance body members who are responsible for several operating areas or functions.

In CSOs where leadership is exercised by their chairmen, their involvement is perceived as natural, especially when they have founded the organizations and/or are simultaneously in charge of management. For instance, at Peru's Hogar de Cristo, founder Father Martín Sánchez served as executive council chair, chaplain, and national director. A similar scheme has been adopted by Crear Vale la Pena in Argentina, an organization chaired and managed by its founder, who informally called herself "executive president." At Costa Rica's INBio, the organization's founder served as both general director and board chairman for 14 years.

In other CSOs, leaders-founders have differentiated the chairman and executive director positions, but left their mark on management nonetheless. At ACHS, whose founding chairman has held this title for decades, his involvement in management affairs (for example, recruiting key employees, even though they are to report to the general manager) was seen as natural and necessary for organizational success. A similar case is that of FECHAC, in Mexico: its founder led the organization for ten years, overseeing its daily operations in all its programs and keeping an office in the organization building. Eventually FECHAC managed to make a transition to a new chairman, shifting to a shared leadership model that involves both the organization's chair and its general director. In these cases, chairmen who were the founders of organizations provided their vision and social entrepreneurship to design, organize, launch, and pursue all major institutional activities.

Finally, at the very extreme of governance body member involvement in organizational management, we find ACOSAMA, in El Salvador, where board members also headed several operating areas and devoted many weekdays to their organizational duties. In this organization, there is a functional overlap between governance body members and management structure.

Other CSOs prefer a low involvement model for governance body members. Organizations like Profamilia see occasional board involvement in daily operations as a practice contributing to good organizational

performance, for it allows board members to focus on strategic courses, global performance monitoring, and network construction. Thus they have given ample leeway to their executive directors for strategic management. Colombia's Colsubsidio has adopted a similar stance, and its board members are strictly dedicated to governance tasks, delegating managerial and strategic challenges to its executive director and his team. Codesser, in Chile, has also opted for a clear separation between governance and management functions. In all these cases, governance body members are rarely or never involved in implementation or operational issues.

Similar schemes are also found in companies. High governance body member participation in social enterprises takes place through founders' or leaders' engagement in corporate transformation. Let us analyze the case of Alberto Vollmer of Ron Santa Teresa: he initiated a company re-engineering and turnaround process based on a new vision of its community contribution. Although the company designated the Institutional Relations Department and the Community Project Department to manage social investments, Vollmer, the executive president, joined the team in charge of their implementation. For him, the direct involvement of company "heads" in social projects is a crucial success factor. Francisco Frías, MRW's founder and general director, has also led its board and has been involved in the strategic management of the company's social responsibility ventures, despite the presence of two departments managing these issues (the Social Action Department and the Corporate Relations Department). At Inditex, its chairman and founder has been directly involved in the inception of, and currently oversees, the company's social strategies; its Corporate Social Responsibility Department reports to him.

In other companies, governance body members' involvement in management decisions happens through role overlapping. At the Chilean Tapsin Foundation, all four company board members (from Laboratorios Maver) made up the Foundation's board and were involved in its operating decisions, discussing all donation requests.

In other companies, however, there is no governance body member involvement in social enterprises' operating or managerial issues. Such is the case of Alpina, whose Corporate Social Responsibility Program emerged as a result of its Human Resources management's effort to systematize and streamline the social activities undertaken by several company areas. Alpina's board is not involved in these initiatives, as it focuses on overseeing and controlling the company's overall performance.

Regardless of governance body member involvement in organizational management or operations, CSOs' executive employees are usually

involved in some way in governance tasks: formulating strategic priorities, policies, and core decisions, and contributing to the quality of institutional decision-making. For instance, FCO's general director is part of the organization's Executive Committee, and FCO's management team attends board meetings and participates actively in strategy formulation and planning. Similarly, Intermón Oxfam's general director serves as secretary to its Board of Trustees (governance body), thus notably influencing institutional decisions. At Spain's GOB-Menorca, the organization's coordinator, who has managed the institution since its professionalization process was initiated, plays a central leadership and strategy-setting role.

Whereas CSO governance bodies meet on rare occasions and have an oversight function, or devote themselves almost exclusively to a specific and critical area such as fundraising, organizations' management teams tend to be actively involved in governance tasks and formulate strategies, policies, and core decisions which are then submitted for governance body approval, as it is mandatory according to their by-laws. At Spain's Intermón Oxfam, for example, the Board of Trustees meets twice a year to approve its budget and general accounts and to adopt the core policies that rule significant organizational aspects (such as collaborations with companies, volunteer programs, human resources, conflicts of interest, and so forth), affording substantial influence and autonomy to its general director and management team.

This scheme is used when CSO founders choose to hold executive positions but not to join governance bodies formally, although they significantly influence organizational governance. At the same time, some of them lay the groundwork and encourage other governance body members to engage in strategic tasks such as institutional relations, partnership building, or project oversight. At Brazil's IDEC, its founder initially served as executive coordinator and later decided to focus on institutional relations, leaving room for IDEC's board to participate in strategic decisions and challenging organizational issues. In Argentina, FPVS's founder also became the organization's executive director and engaged local businessmen committed to housing projects to support FPVS by joining its governance body. In this case, board members actively collaborated with the organization's executive leader to deal with critical organizational challenges (negotiations with investors and public officials, for example), devoting their time and efforts to strategic tasks and resource mobilization.

At many companies, this scheme also drives executives and managers in charge of social responsibility initiatives to take part in governance tasks associated with these issues. Since social enterprises or corporate social

responsibility efforts are not companies' core businesses—as they are in CSOs—social venture governance functions such as defining missions, formulating key strategies, or providing leadership are logically assigned by CEOs or general managers to other company management team members. For example, in Chile, Coca-Cola's Corporate Communications Manager serves as the general manager for the Chilean Coca-Cola Foundation, handling governance, management, and operating issues through his involvement in its board and the Executive Committee created to manage social activities. At Mexico's Cemex, the CSR manager and the communications director reformulated the company's community involvement strategy. The latter also created and managed the Communications Committee, which included Cemex's president and area vice presidents, to set corporate social responsibility guidelines and participate in governance issues.

A good working relationship between an organization's executive (in charge of management structures) and its chairman seems to be essential for the development and enhancement of executive contributions to organizational governance. This good working relationship may be based on complementary functions, capabilities, and personal traits. Venezuela's Fundación Proyecto Paria is an illustrative example. Its executive director lives and works at the organization's operating area, leading the foundation internally and managing its projects, while its chairwoman is in the nation's capital city, acting as the foundation's public figure before donors, international networks, and the media. This specific relationship between an organization's top executive (who is an employee) in charge of management and its volunteer leader in charge of governance has been identified as one of the salient features of CSOs' leadership.[26]

The relevance of a trusting and cordial relationship between organizations' top managers and chairpersons is more notable in sample CSOs, but it is still quite relevant in companies, although in these cases the relationship that must be managed involves top corporate executives (who may also serve as chairmen) and the managers in charge of CSR areas.

Sample case study analysis also suggests that in CSOs and corporate social enterprises alike, the engagement of at least some governance body members in executive and management tasks helps to articulate polices, strategies, operating plans, and activities, and fosters greater internal consistency and more effective institutional performance. In addition, the involvement of individuals holding executive positions in governance body meetings usually enriches decision-making processes relating to social venture policies and strategies.

These findings clearly contradict some authors[27] who state that governance bodies should primarily provide broad, comprehensive leadership, focusing only on the one strategic question, "who should receive which services at what cost?" with no involvement whatsoever in operating or executive matters, thus sharply separating governance and implementation spheres. On the contrary, our findings seem to support the views of authors who believe that one of the principal roles of governance bodies is to participate actively in the handling of issues with strategic implications.[28] This approach often implies that these bodies become "working" governance bodies[29] or assume an active role in organizational leadership along with top management, developing a "generative governance" model.[30]

Such observations are understandable to the extent that social enterprises require guidance, influence, motivation, inspiration, and assurance of implementation. In most CSOs leadership is shared between principals (executive directors or general managers) and governance body chairs, or else a single individual performs both functions, so role overlapping becomes natural. Similarly, in many companies, social venture leadership tends to be shared by the manager in charge of the area implementing these initiatives and the company's top executive, who is also a member of corporate governance. Therefore some degree of overlapping between governance and management tasks contributes to accomplishing improved internal cohesion in planning and implementation, thus preventing frequent rifts between these two core processes in successful social enterprises.

Management Lessons

Our research findings reveal some management lessons for social venture leaders in both CSOs and business companies.

Social ventures' governance schemes, processes, and structures must be designed to respond to social initiatives' sustainability requirements, both in CSOs and business companies. An initial prerequisite is having enough stability, persistence, and continuity in core organizational guidelines to support medium-term strategies and actions in order to meet the conditions required to create social value, assess initiatives' impact, and make necessary adjustments. Governance body continuity is also needed for external purposes, since organizations must be perceived as having a stable leadership in order to enhance their credibility and to attract economic resources.

A risk entailed by prolonged tenure of the governance body lies in the potential lack of new ideas, which would curtail responses to environmental changes or issue complexity. Building advisory councils or consultation

committees may be a useful mechanism to bring in individuals with new talents, perspectives, information, and experiences that effectively enrich the options considered in strategic decisions.

Conversely, when prolonged governance body member continuity is infeasible or politically unacceptable, medium- or long-term perspective may be ensured through the creation of a more complex governance structure, with a higher authority performing a "surveillance" function or safeguarding organizational assets by reserving the right to decide on primary issues (indebtedness, real estate acquisitions, fund investment policies, and so on).

In addition to fulfilling the responsibilities associated with preserving organizational integrity and complying with the value creation purpose of the organization, governance body members must make sure that social enterprises get the necessary resources. These resources are not just monetary but include legitimacy among stakeholders, credibility before the community or public opinion, access to political or funding support, scarce or costly technical skills. Profiling definitions for governance body members should be as explicit as any other core organizational process. Recruiters for governance bodies should therefore take into account candidates' expected contributions and assess existing mechanisms' screening ability. Once again, organizations may also enrich their governance structures by incorporating advisory or consultation bodies, which will integrate individuals with the necessary capabilities to meet ventures' governance requirements.

Finally, governance body members' involvement in activities or tasks that exceed the traditional oversight, control, and policy or priority setting functions and lead them to participate in strategic or operational issue management should be viewed as contributing to high governance performance. This notion applies to both for-profit and CSOs. Additionally, this type of active involvement increases governance body members' commitment and motivation, encouraging them to continue along this path. Of course, this scheme entails risking some interference in management tasks and adding new scenarios for potential conflicts. Yet as long as governance body members' involvement in organizational management is properly and explicitly designed, carefully managed, and periodically assessed, organizations will optimize their governance bodies' overall contributions. This mechanism will effectively improve decision-making by providing governance body members with a more comprehensive view of organizational initiatives, new insights drawn from deeper and more

thorough knowledge of venture activities, and a renewed commitment to social organizations' success.

Although these lessons are applicable to both companies and CSOs, a specific aspect of corporate social venture governance deserves special attention: the desirability of separating social venture governance structures from main corporate governance bodies. In this regard, our sample research findings indicate that the more central social enterprises are to company business models, the more advisable it is to integrate their governance responsibilities into company boards. Nonetheless, depending on the magnitude and development of their portfolios, it may be convenient to provide a different structure to closely oversee their operations. Still, this structure should include some of the leaders or key members of the company's main governance body.

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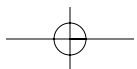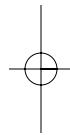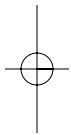
9

Performance Measurement and Management

A preacher and a cab driver died in a populated Latin American city and went to Heaven. Both were welcomed by St. Peter, who ushered the cab driver into a luxury condo but led the minister into a straw hut. The preacher was flabbergasted and angry, and asked the reason for this obvious discrimination. St. Peter answered calmly, "You see, when you preached, your listeners slept, but when he drove, everybody prayed! Results are what counts."[1] The lesson of the story is the bottom line of this chapter: outcomes, not just intention and activities, matter.

The role of the preacher in the story reflects the reality of many social enterprise undertakings by CSOs and businesses all over the world and particularly in Latin America. They devote well-intentioned, extensive efforts to their cause, but are not sufficiently focused on outcomes. Not enough weight is placed on determining the ultimate social value that their efforts are producing. In the for-profit world, the financial statements enable analysts to focus on measures such as profitability or shareholder returns, which reveal the economic performance of a firm. In the case of social initiatives, however, there are neither such unique equivalent reports nor agreed-upon measures to estimate the value created for beneficiaries and stakeholders.

Financial outcomes are relatively easy to compute for business operations of firms and earned income produced by CSOs. Every firm keeps its records according to accounting principles and guidelines that allow it to measure its financial standing. The relative success or failure of these endeavors may often be determined without difficulty from key ratios obtained from the financial statements. These figures provide an appropriate benchmark to measure their economic success in the market against competitors. Even for nonprofit organizations, the determination of their economic value and financial health can be readily derived from the financial statements.

Unfortunately, the measurement of social value creation for business enterprises and CSOs is not so straightforward. When it comes to measuring social impact, the task is complex. The crux of the matter of social enterprise performance, whether for nonprofits or businesses, is in evaluating the progress made towards the attainment of the social mission. In practical terms, for both mission-driven nonprofit organizations and social initiatives of business firms, measuring success may entail measuring an abstract notion, such as "alleviating human suffering" or "protecting bio-diversity." This difficulty of evaluating social endeavors is widely recognized.

Effects are not only difficult to quantify—some may be addressed solely in terms of qualitative methods—but they may take a long time to manifest themselves. They are frequently determined by many factors other than the actions of the social enterprise, so attribution may not be clear. "What caused what" can be hard to sort out. Additionally, social endeavors are being appraised by how effectively and efficiently they meet the oftentimes varying needs of their constituencies, direct beneficiaries, donors, and other stakeholders in the community. In essence, the demands for performance and accountability require the consideration of a variety of outcomes for a heterogeneous group of stakeholders, often with differing interests. Social endeavors need to be concerned with issues of economic sustainability but face the added challenge of trying to assess social value creation. The words of the director of FECHAC, one of the organizations included in our sample of social initiatives, are representative of the feelings of most leaders of these endeavors: "Being able to assess if we are having any impact in solving the problems we are addressing, or being able to measure if we are really making any substantive progress, is something that we still have not accomplished. This is our great challenge: the assessment, follow-up, and measurement of impact."

To clarify this daunting task of assessing social performance in a managerial environment, we will use a simple measurement framework to help highlight some variables and smart practices observed in the sample cases.

A Performance Measurement Framework

The majority of participants in the social enterprise world have had to address at some point the issue of performance measurement, and the general agreement is that effectiveness needs to be addressed vis-à-vis the outcomes that stem from the mission of an organization. Once the goal specified in the mission is accomplished, success has been achieved. Traditionally, the measurement of performance in social initiatives involves

assessing four basic elements: inputs, activities or processes, outputs, and outcomes.

These basic elements are combined in this chapter into a framework that includes the overall strategy towards mission fulfillment and underscores the connectedness of mission, strategy, and outcomes (Figure 9.1).

Performance Assessment as Part of a Management System

The key issue in the Performance Assessment Chain is the distinction between outputs and outcomes. Too often performance evaluations focus on the front end of the chain: inputs, activities, outputs—the amount of dollars deployed, the volume of services rendered, or the number of beneficiaries served—and this is deemed sufficient in terms of the impact of the organization or social initiative. But superior practice requires focus on the measurement of outcomes, which entails providing evidence of observable changes in the lives of actual beneficiaries or clients. Outcomes need to be specified and assessed, and that represents a major challenge for nonprofits and private businesses that have not developed a systematic focus or capability for such assessment. To be an effective tool, performance measurement must be integrated into the management system of an organization. Any outcomes assessment model is informed by the processes that shape each of the components in the Performance Assessment Chain and their linkages.

In order to implement adequately a framework for outcomes assessment, the people in charge of such efforts need to develop indicators that

Figure 9.1
Performance Assessment Chain
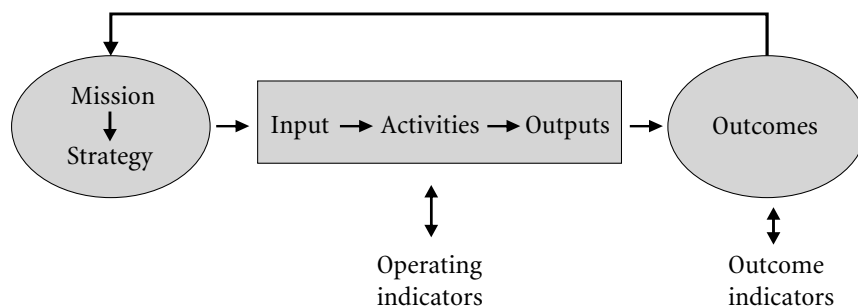
Source: Adapted from Moore (2003)

represent the full spectrum of goals pursued by the organization, with a focus on the satisfaction of the needs of its stakeholders. The mission specifies where they want to get to; the inputs are the resources needed for the journey; the operating indicators are the means through which they appraise the processes involved in the overall strategy implementation and the efficiency in the attainment of the mission; the output measures demonstrate the intermediate results of the processes; and finally, the outcome indicators are the ultimate measures that translate into how well or how poorly they are doing. What gives coherence to the Performance Assessment Chain is the underlying theory of change that postulates how the mobilization of certain inputs channeled by selected operating processes will produce a set of outputs that cause the transformational outcomes sought by the mission.

Mission and stakeholders are the originating sources for designing outcome indicators associated with specific goals. Still, performance measurement should not be approached in isolation. It ought to be part of the overall management process, in order to provide valuable feedback to assess the overall strategy of the organization. When performance measurement is isolated from the overall management process, an organization may be well managed and generate value, but risk losing the justification that validates its very existence.

An integrated performance measurement and management system requires identifying and collecting information for all the components in the chain, but the main emphasis is on the operating and outcome indicators. Operating indicators allow the appraisal of the general functioning of the processes in the organization, including the level of alignment of mission and strategy (see Chapter 3). Outcome indicators serve to gauge the level of progress made towards the achievement of the mission. Both kinds of indicators need to be developed, along with the complementary input and output measures, and used to monitor progress in organizations, as they provide valuable information that allows optimizing the internal processes and improving the alignment towards the attainment of the mission.

The assessment of progress towards the achievement of the mission and the focus on stakeholders as the basis for the development of an integrated framework of outcomes assessment will now be examined.

Assessment of Progress toward the Achievement of the Mission

The importance of a clear mission statement for the assessment of progress toward its achievement cannot be overstated. Relevant questions

regarding any mission statement refer to whether it is specific and applied and whether there is a strong logical model or theory of change in its foundation. A well-defined mission should enable the specification of clear goals and objectives that can be translated into specific indicators of social impact.

All of the sample nonprofits and private businesses in the study collected some form of data related to their operations, such as the yearly number of services delivered or benefits provided to their clients. Many simply collected information relative to outputs and had not gone so far as to develop a managerial framework for outcomes assessment, although a few had tried to address this area.

Most of the company-based social initiatives—as compared to those of the nonprofits—appeared to be less focused and specific, both in terms of definition of a mission and measurable goals. Roughly half of them were vaguely oriented and lacked a formal document with their mission. When companies did have a mission statement for their social endeavor, they did not always clearly specify their beneficiaries, the specific problem that they would address, or the indicators that they would use to assess progress towards the attainment of the mission. In general, family-run companies were characterized by a more lax mission statement definition of their social enterprises. Conversely, companies and CSOs that had regular board meetings or had inter-sector alliances appeared to have more refined and focused mission statements. Obviously, organizations that lacked a well-defined mission statement were in a weak position to build a cogent outcomes measurement system.

To repeat, how to measure "mission attainment" is the ultimate challenge for any social program or enterprise. This may be difficult to do because an abstract mission statement such as the "protection of biodiversity" needs to be restated in operational terms. This restatement entails developing an acceptable proxy or surrogate measure that aptly represents the mission and allows assessing progress against that goal.

An example of an organization that managed to build on an initially vague mission statement to address the measurement of outcomes is provided by Fundación Proyecto Paria (FPP). Paria is a rural area in Venezuela, where a majority of its 180,000 inhabitants live under conditions of extreme poverty. The mission statement of FPP reads as follows: "Promote the improvement of the quality of life in the Paria region … through the creation and support of projects and actions that, in harmony with the natural environment and with the active participation of the local protagonists, contribute to the development of the region and the progressive

satisfaction of the population's economic, social and cultural rights." To measure mission attainment, the organization identified four areas which appeared crucial to the elevation of the quality of living for the population: rural education, community health, the promotion of savings and loans, and the improvement of cocoa production, which is the major economic activity of the area. Then they developed a program for each area and defined success indicators both for the short and long term. Although a step in the right direction, these indicators did not always address whether they were having an impact in elevating the quality of life of its beneficiaries.

For example, the successful completion of training was considered to be one indicator to assess progress towards the goal of strengthening the organizations of small growers of cocoa through education. Specifically, the aim was to provide training for 100 cocoa growers in management tools, personal growth, and leadership by 2002. But this is an output, not an outcome indicator. The FPP people fell short of defining an outcome indicator to address whether the training had an impact in elevating the quality of life of those 100 individuals. Similarly, a long-term indicator for the cocoa production program goal of "elevating the quality of life of the population in the Paria region" was the "successful completion of the sixth grade." Specifically, the aim was to have all children attending the 100 rural schools in the area complete sixth grade successfully, with at least 50 percent of them demonstrating competence in applying key skills for community participation by 2010. Although not specified in the FPP case study, it is likely that the indicator of school attendance could be obtained from the educational records of the schools. However, the indicator of "competence in key skills" would require an operational definition of those "key skills" and what would be considered an adequate level of competency to be achieved by the year 2010. An assessment of impact would entail the application of a scale or an observational guideline of some sort to assess whether the children demonstrate progress toward the achievement of the desired level of competence.

A coherent measurement framework contributes to keep the goals in focus and assess the progress through the attainment of specific outcomes. Members of the managerial team of the organization should meet periodically to review the outcomes associated with the different programs in order to integrate them into the assessment framework and the general management system.

An example of a company-based initiative that appears to place emphasis on outcomes assessment is that of Argentine's Arcor. In its program "Mi Escuela Crece," one of the criteria used for selecting the initiatives for

financing is a clear definition of expected outputs ("results") and impact assessment in the form of measurable outcomes. Arcor's concern for assessing the impact of their programs in the long run was formalized through an agreement between its Foundation and Universidad Nacional de Córdoba to evaluate the impact of the program after seven years of operations. Some of the projects funded by "Mi Escuela Crece" had proved sustainable while others were discontinued. The assessment, according to the project coordinator, helped them to clarify the institutional conditions of schools required for project sustainability and the achievement of desired outcomes. In turn, this information helped the organization make changes in its funding allocation decisions.

Often, the champions of social initiatives lack the formal training in measurement that facilitates the development of a coherent framework of performance assessment. In those cases, forming alliances with universities or academic centers, as Arcor did, may be a good option to guarantee that the evaluative requirements of social enterprises are adequately met.

Focus on Stakeholder Assessment

In order to be able to develop a definition of "success," the proponents of a social endeavor need to have a clear characterization of who are its potential and actual stakeholders. In broad terms, attention to stakeholder concerns includes as a subset the interests of its direct beneficiaries. In general, stakeholder satisfaction is considered to be essential in the success of nonprofits, and should be regularly measured. Still, it is necessary to acknowledge that stakeholder satisfaction does not necessarily suffice as proof that the organization is actually making progress towards the attainment of its mission.

Knowing who the stakeholders are and their criteria for judging the performance of the organization can foster continued support and the necessary resources for the achievement of its mission. A focus on stakeholders is reflected in the question: "Who will benefit from the services or activities of the organization and who has a vested interest in it?" The attempts to answer these questions should translate into efforts to evaluate the satisfaction of beneficiaries and donors, among others. It is likely that social investors will want to know not only how valuable the service is to recipients, but also how much it costs to produce and how much value is generated in the process.

In our study, nonprofits appeared to be more focused on stakeholders and value creation than are company-based initiatives. Enterprises that had a sharper focus on their stakeholders and on the creation of value also had

boards that met regularly and worked efficiently. Additionally, the existence of an alliance was positively associated with a focus on stakeholders. Family-run foundations seemed to be less focused on stakeholders and value creation than their non-family counterparts. Yet caution should be exerted when interpreting these associations, since it is not possible to state at present whether they represent causal relationships that bear on the overall effectiveness of the organizations. Future research may clarify their role and actual impact on the performance of social endeavors.

Although most of the highly visible enterprises included in this sample focused on their direct beneficiaries, not all of them had a wider focus on a larger variety of stakeholders. For social initiatives, outcomes should be directly traceable to the value captured by its stakeholders (individuals, communities, organizations and the wider society). A cogent performance measurement system should help answer the very question that justifies the existence of a social initiative, namely, "whom does it serve and how?"

An example of one institution that has adopted a wide focus on stakeholders and value creation is provided by the Corporation for Rural Social Development (Codesser). Codesser not only assesses the competencies of its direct beneficiaries—students enrolled in secondary vocational school specializing in agriculture—through a battery of assessment instruments designed to appraise the level of performance in a variety of farm-related tasks, but also focuses on actual and potential employers of their graduates through survey methods.

The manager in charge of academic affairs routinely examines the rates of employment of their recent graduates by farming area, and surveys their employers regarding the preparation of their new recruits. By assessing the employers' satisfaction with the graduates, the managers can adapt their programs to ensure that the transition from school to work will be smooth for all parties, meeting the expectations of students and employers.

Codesser also considers that potential employers—farmers and businesses that have not hired their graduates—are part of their stakeholder network. They devote resources to explore their needs and expectations regarding the skills that farm workers should possess and their perceptions of the quality of training provided by the institution. All the information is analyzed and used to orient decision-making aimed at optimizing the preparation of Codesser students to comply with market demands.

The focus of the organization on stakeholders and value creation in the community has translated into a competitive advantage in rural education, and the organization has gained local recognition among prestigious educational institutions that admit Codesser graduates to their programs,

skipping regular admission procedures. The institution has become a stiff competitor for the public education school system, offering higher quality training and more opportunities to their graduates for continued education. Our cases revealed the use of various measurement practices that promote support from individuals and societal stakeholders. These include the use of surveys, benchmarking, and measures of external recognition.

Surveys

The survey method was the most widely applied measurement technique to assess the satisfaction of stakeholders. The intensive use of surveys and the communication of the findings allow CSOs and company-based initiatives to muster continued internal and external support for a social cause. Being attuned to stakeholders' needs, expectations, and satisfaction with the services rendered—by making them the focus of evaluative efforts—provides feedback that can be used to monitor and adjust the organization's operations.

Pantaleón, the largest sugar company in Guatemala and Central America, is a good example of a company that adopted surveys to measure the satisfaction of workers with their programs. In 2003, five years after the company was restructured, it conducted a survey to measure organizational climate among its workers. The findings were positive, and it allowed the company to establish the level of satisfaction of Pantaleón's workers relative to that of other workers in the industry. Workers reported a high level of commitment and identification with the company. On the basis of the findings, the company reoriented its human resources policies to train their workers for empowerment and personal development, increasing the competitive edge of the company at the national and international levels.

Another organization that focused on the measurement of its beneficiaries is Colsubsidio, which provides social security services in Colombia. By the end of the 1990s, Colsubsidio was faced with the necessity of revising its strategy towards its clients. The financial crisis and economic recession that afflicted the country caused a massive exodus of workers from the formal labor market, and this affected the company's business operations. It implemented a strategy focused on periodically surveying client satisfaction according to an ISO standard. This strategy translated into an increased loyalty on the part of their affiliates. The change from a passive organization that responded to requests of service from businesses, to a proactive institution that sought information from their clients to serve them better through the provision of sight-based advice, gave Colsubsidio

a competitive edge over the other participants in the market. According to one of its top executives, their focus on the assessment of stakeholders through the use of surveys led to sustained growth in affiliates and positioned Colsubsidio as the market leader in Colombia.

Benchmarking

This is a practice that appears to be less utilized than surveys but that is nevertheless being applied by a few of the social initiatives in the sample. Establishing periodical comparison with other organizations in the same area (benchmarking) is desirable, particularly for those initiatives that face competition in the provision of goods or services.

Codesser regularly uses benchmarking. Its manager in charge of academic affairs collects information regarding the results of a national standardized test of educational assessment and compares the performance of Codesser schools against that of their closest competitors in the field of rural education. She identifies all schools that compete with Codesser and computes a summary score of educational performance in the subjects measured by the tests. This information is used by the Board at Codesser as a benchmark to assess its educational excellence.

In order to assess their progress in technical subjects that are not part of the national system of standardized tests, Codesser teachers have developed achievement tests to measure mastery of selected skills. Their benchmark for monitoring progress in the technical subjects is the first generation of students (baseline) that took the tests. Continual improvement relative to the baseline is their performance indicator. Codesser's focus on measuring educational outcomes and the use of benchmarking may be relevant factors associated with the increase in student enrollment in Codesser schools. According to its general manager, the dissemination of the information in the local communities has helped Codesser build a strong reputation and has given them a competitive edge over other providers of rural vocational education.

Measures of External Recognition

Measuring the enterprise's recognition in the community is another useful indicator of perceived effectiveness by this larger stakeholder group. Very few organizations in the sample report the use of these measures.

An exception is Cementos Lima, the leading producer of cement in Peru. The company was located in a place on the outskirts of Lima where poverty prevailed. The relationship between the community and the company changed after a study was launched to assess the perception of the

company by its neighbors and consumers in 2002. The findings showed that opinions were mixed, tending toward negative. Some said that the company did not contribute to the development of the area, while others felt that the company was seriously harming the environment. The findings prompted a reorganization of the social initiatives undertaken by Cementos Lima, whose managers wished to be perceived as "a big friend and not merely a big neighbor." As a consequence, the company opted to address its social initiatives in a systematic and professional manner. This included the creation of an association that made funds available to support sustainable social initiatives designed and presented by local community members. Also, regular efforts were made to communicate their social initiatives in the larger community, paying particular attention to the communities neighboring the plants.

Integrated Performance Measurement and Management Systems: The Case of Asociación Chilena de Seguridad (ACHS)

The nonprofit social enterprise ACHS is a good example of an effort to integrate performance measurement into a general management system. This was not achieved overnight, and it has been the result of continuous efforts in the course of 45 years of operations.

Although the head of the initiative and its CEO for almost half a century does not possess a college degree in business administration, he had been a business owner and instilled the same style of management in the social initiative that he applied in his company. The style of management at the institution has evolved into a sophisticated system that encompasses a variety of performance measures. In the organization, the managerial practices and the focus on outcomes are no different from those of a for-profit endeavor. Its managers are concerned about delivering the best possible service, while keeping in mind the need to focus on generating economic surpluses to ensure enterprise sustainability.

The solidity of its board and the company's awareness of working in a competitive environment have played a role in stimulating the sophisticated style of management that permeates the organization. Executives who work for the organization are trained professionals who have goals to meet—defined in terms of financial, operating, and outcome indicators—for which they are held accountable. According to his collaborators, the CEO is always pressing to keep abreast of innovative practices that may give the organization a competitive edge. Alliances with the competition and entrance to new niches of service are studied, as would be the practice for any business company entering a new market.

The CEO of ACHS expressed the quest for managerial efficiency in these terms: "the only thing that differentiates us from profit-oriented companies is that we do not have to pay a dividend to stockholders … we are permanently monitoring the bottom line to make sure there is a surplus … if we are unable to generate economic resources we will be unable to pursue our mission with the level of excellence we are used to."

In Chile ACHS has pioneered the use of management tools such as the Balanced Scorecard, although some analysts in the public policy and management fields have questioned the actual usefulness of this framework for social-oriented organizations. (See Chapter 3 for an alternative strategic model that appears to be well suited for social endeavors.) Still, whatever the model used, performance measurement needs to be attuned to the attainment of outcomes. For ACHS the Balanced Scorecard model works because they operate in a competitive market and in order to continue to serve their constituencies through the provision of services they have opted to operate emulating a business management model. Accordingly, the management information systems developed in the organization are comparable to those of any well-managed multinational corporation. The CEO and executives are aware of the importance of timely information in order to stay competitive and have invested resources to build an efficient system that ultimately allows them to track desired outcomes.

ACHS has an intricate network of information and performance measurement integrated into its management system. Close attention is paid to the "bottom line," but financial outcomes are not the only outcomes monitored.

The mission of the organization, to promote safe and healthy workplaces, has been conducted through two main areas where outcomes are pursued: 1) the prevention of work-related illnesses and accidents, especially those that produce partial/full disability or death, and 2) the provision of high quality medical services geared towards full recovery from work-related accidents, as quickly as possible and at the lowest cost.

Recently, ACHS has started using the Balanced Scorecard framework to develop, organize, guide the execution of its strategy, and ideally lead the organization towards mission attainment. Tables 9.1 and 9.2 summarize some of the indicators that have been articulated to date, to assess progress in the four dimensions of the model: financial, customers, internal processes, and learning and growth. ACHS aims at becoming the leader in safety and occupational health in the country, and to be known for the high quality of its services and complete client satisfaction.

Table 9.1
Sample of ACHS Objectives and Operating Indicators for
Accident Prevention

Area	Objective	Operating Indicators
Financial	Achieve a portfolio of loyal clients Positive financial results	• Contribution margin • Customer loyalty • Market share
Customers*	Offer effective and timely prevention services with differentiated attention in prevention services according to market segment	• Average number of work days lost, disabilities and deaths due to work-related accidents • Average number of work-related accidents • % of companies with a rate of work days lost, disabilities and deaths due to work-related accidents below a specified level • Client satisfaction regarding prevention services
Internal Processes	Prevention programs—established via collaborative ACHS-affiliated company teams—considering segment and affiliated companies' expectations and needs, and incorporating the use of a virtual platform	• % of contracts signed with low-accident companies • % of activities completed with low-accident companies • % of virtual products in use • Use rate of virtual platform • % of internal agreements signed with affiliated companies • % of internal agreements completed
Learning and Growth	Establish a stable and committed ACHS team of socially responsible and knowledgeable professionals. Achieve a working climate that favors entrepreneurial spirit, and a culture that is client-oriented with a focus in the attainment of strategic goals.	• % of professional teams that end up working with companies that show low accident levels • % of employees surveyed that are knowledgeable about ACHS' strategy • % of employees that express commitment to the achievement of ACHS' strategy

(*) *Note:* All indicators in this area are also reported by market segment

The information regarding operating indicators is collected via questionnaires and surveys. The data are also analyzed and compared to national standards and used to evaluate the company's progress against that of their competitors. Although ACHS does not make use of formal benchmarking, it does pay close attention to the performance of local

Table 9.2
Sample of ACHS Objectives and Operating Indicators for
Medical Services and Accident Recovery

Area	Objective	Operating Indicators
Financial	Lower the costs of accidents	• Average cost per accident • Total accident expenditures
Customers	Achieve a prompt return of injured or ill workers back to the workforce through effective medical treatment, and with total client satisfaction.	• Average number of days for treatment • % of extended treatments (fewer than 30 days) • Results of client/patient satisfaction survey • % of client/patient complaints
Internal Processes	Effective and efficient clinic/hospital management, controlling quality through the use of technical, administrative and service protocols (particularly for rescue, delivery of medical services, and patient transfer when necessary).	• % of protocols completed • % of patients sent to other ACHS centers within a specified average timeframe • % of patient re-entry within 48 hours of being discharged • % of patients with waiting times within the specified limits • % of patients treated in ACHS centers in their community • % of patients rescued within the specified standards
Learning and Growth	Establish a stable and committed ACHS team of socially responsible and knowledgeable professionals. Achieve a working climate that favors entrepreneurial spirit, and a culture that is client-oriented with a focus in the attainment of strategic goals.	• % of employees and professionals with certified organizational competencies • % of employees with strategic competencies certified • % of employees that work under an incentives scheme oriented towards the attainment of strategic objectives. • % of areas that improve Quality of Life Index (in ACHS' Social Balance Survey) • Average productivity

competitors and to what is going on worldwide so it can keep abreast of the latest innovations in the field of prevention and medical services.

From an organizational standpoint, the leaders of ACHS are aware of the need to foster a positive work climate in order to provide excellence in service. Thus results are also measured in this field through organizational climate indicators. These can be conceived as mediators in terms of the final outcomes pursued by ACHS—that is, prevention of work-related illness

and provision of medical services—and can be defined in terms of the performance measurement framework as operating indicators.

To date the many functional areas or processes in the organization have been closely and regularly monitored through a variety of indicators and scales. For example, the organization has been using the Social Balance Survey (SBS) as a way to gauge the internal climate of the organization for the past three decades. It was first applied in the early years of the Pinochet regime as a way to gather information regarding employee needs and satisfaction and to bypass the restrictions on the freedom to hold large meetings. The SBS provides indicators regarding employees' perceptions and the quality of human interaction inside the organization. According to ACHS managers, it is considered to be a useful tool for detecting weak spots that need to be addressed in order to foster a positive organizational climate.

Outcomes Assessment in the Prevention of Work-Related Illnesses and Accidents

Unlike many organizations that understand performance assessment as the tracking of outputs, ACHS has made attempts to address this issue in a more comprehensive way. While ACHS focuses on outputs and pays close attention to operating indicators, it also places special emphasis on the social impact of its actions. To do so, its managers have defined a series of outcome indicators regarding progress made in the achievement of their mission.

Because its organizational efforts are oriented towards two main areas of activities, ACHS has defined outcome indicators for both. There are incentives associated with the achievement of organizational goals, defined on the basis of outcome indicators to promote the involvement of managers and employees in mission attainment. Still, there are overall responsibilities of specific managers in the attainment of particular outcomes and a clear delimitation of duties regarding the compilation of information in a given area.

The connectedness of mission, strategy, and outcomes assessment can be seen through the following example that describes some of the data collected regarding accident prevention. In the Operations Department, the Manager of Accident Prevention is evaluated according to the goals set in terms of reduction of accidents and work-related illnesses. She is also the person in charge of compiling the statistics required to assess whether ACHS is being successful in its efforts to make work environments safe. Under her leadership, ACHS staff works with committees inside the affiliate companies to raise awareness about risk prevention and reduce dangerous practices

that may result in injuries for workers. The overall information is fed to the operations manager, the CEO, and the board of directors.

ACHS has developed categories of businesses according to activity type, given that there is considerable variation in the risks of accident and illnesses, depending on the kind of industry in which the affiliated companies operate. Mining and construction work are among the riskier lines of business, and considerable efforts are expended towards reducing the accident and work-related illnesses associated with these activities. Thus for each industry different goals are set in terms of actual reduction in accidents, work-related illnesses, and work-days lost because of these. Given that significant resources are directed to preventive efforts, progress made in this area is a matter of serious attention by top management (see Table 9.3.)

Table 9.3
Example of Desired Outcome and Indicators for the Prevention of
Work-related Illnesses and Accidents in Affiliated Companies

Desired Outcome	Outcome Indicators*	Locus of Responsibility	Control Chain
To attain safe work environments which do not pose a risk for workers' health	• Rates of work-related accidents • Rates of work-related illnesses • Variation rates of accidents and work-related illnesses	Accident Prevention Manager	• Operations Manager • Exec. V-P • CEO • Board

(*) *Note:* The indicators are analysed in the context of industry-specific information.

Outcomes Assessment in the Provision of High-Quality Medical Services and Rehabilitation

The provision of excellent medical services and rehabilitation is a major concern for the organization. It is in the best interest of ACHS that patients recover as quickly as possible because ACHS pays for their treatment, rehabilitation, salary while out-of-work, and workers' life-long pension in the case of permanent and disabling injuries. Thus the organization invests heavily in training and continuous education for medical personnel, including periodic exchange fellowships at top medical centers worldwide. The goal is to utilize the best possible medical technology available in order to achieve full patient recovery in the shortest period of time.

The hospital that ACHS owns in Santiago, The Workers Hospital, has a sophisticated data collection system that closely monitors information regarding operational, output, and outcome indicators. To offer the best possible medical attention, quality control has been targeted through the use of operational indicators that track the time elapsed between patient arrival and the delivery of medical attention, the rates of intra-hospital infections, rates of suspension of scheduled surgeries, and other indicators that assess the efficiency of in-hospital services. Client satisfaction with the medical services received is also assessed. However, these do not suffice to evaluate whether the organization is achieving the desired outcomes of best treatment and prompt recovery in the case of work-related accidents or illnesses. The aim is to have workers recover fully from accidents or work-related illnesses and be back in the workforce as quickly as possible. Deaths or permanently disabled patients are viewed as system failures (see Table 9.4).

Table 9.4
Example of Desired Outcome and Outcome Indicators for
Work-related Illness and Accident Recovery

Desired Outcome	Outcome Indicators*	Locus of Responsibility	Control Chain
The provision of the highest quality treatment at the lowest possible cost aiming at full accident recovery and prompt return to the work force.	• Length of hospital stay • Length of treatment for full recovery • Measure of days lost from work due to accidents/illness • Rates of partially disabled patients • Rates of permanently disabled patients • Client satisfaction with treatment received	Hospital's General Manager	• Hospital Board • ACHS CEO • ACHS Board

(*) *Note:* The indicators are analyzed in the context of industry specific information. They are also combined to estimate the relative risk of a business company and used by the Associated Members to determine the annual fees charged for coverage exacted from affiliate companies.

It is interesting to note that prevention and the provision of medical services are not two independent dimensions. If the organization becomes one hundred percent effective in prevention, the need for medical services disappears. Indeed, the advances that the organization has achieved in prevention have translated into a decreased demand for medical services and ensuing problems of excess hospital capacity. ACHS executives have addressed this problem by expanding the provision of medical services to private patients. Although that is not included in this analysis, ACHS has developed a framework for outcomes assessment for this new niche of beneficiaries that is similar to the one developed for affiliated workers. While this venture does not technically contribute to mission fulfillment, it nevertheless provides benefits for ACHS, such as additional resources that can be invested for updating medical equipment and keeping abreast of the latest medical technology to treat work-related accidents and illnesses.

Lessons for Practitioners

The aim of this chapter was to explore the nature and significance of performance measures and their integration into the management systems of social enterprises. It is widely acknowledged that social initiatives need to be judged on the basis of the progress made in the attainment of their missions. As has happened in developed countries, it is likely that the days will soon be over when simple word-of-mouth information about results sufficed as a measure for the quality of social work by nonprofits or businesses. Testimonials and promises of potential benefits and good practices will eventually be replaced by solid evaluative frameworks. Anecdotal evidence can enable biases and wrong decisions—for example, keeping inefficient programs or overrating the effects of an intervention—leading to a waste of scarce and valuable resources.

Performance measurement of social enterprise initiatives in Iberoamerica is likely to become increasingly a priority for public benefit endeavors, and the leaders of these initiatives will become hard-pressed to offer evidence that they are being effective in addressing the urgent social problems that they are meant to alleviate. In the past, outputs sufficed to secure resources, but that may be gradually changing. Outcomes—defined as observable measures of changes in the direct beneficiaries that provide evidence of mission attainment—should be what really counts.

Transparency, accountability, and an emphasis on performance measures can make a difference in a competitive environment where a myriad of different organizations compete for limited resources. In the contest for survival, the selection of the fittest requires evidence that the goals and

aims of the organization are being met adequately. This may not hold true at present for a number of organizations in Iberoamerica that have thrived thanks to loyal donors that favor their organizations with unconditional financial support, fully trusting that they are doing good. Still, showing positive outcomes could help nurture this trust and foster confidence and continued support.

Among the organizations included in this sample a few have been able to translate their mission into operational outcomes. They have developed cogent managerial practices and strategies that have allowed them to make considerable progress in the attainment of their mission and have thus come to be regarded as exemplars of effective social initiatives. Still, there is ample room for improvement in this area.

Practitioners and consultants for social initiatives can play an active role in the improvement of performance measurement practices by stressing the need to translate the mission statement into a set of distinct and concrete outcomes that can be monitored through a management system. Not all the social enterprises included in this sample had developed an operational definition of outcomes. Many were looking to abstract mission statements which did not allow for proper monitoring of their effectiveness. Those organizations would benefit from the exercise of defining outcomes with a focus on results in the lives of beneficiaries and other stakeholders. Outcomes-based evaluation brings clarity to the mission and the goals of the organization and offers a unique opportunity to re-evaluate the cogency of the mission statement and the fit between the programs and goals pursued by it.

Our study has revealed a weak culture of outcomes assessment with little regard for its integration with the rest of the management system of the organization. The finding that CSOs appear to be somewhat more concerned with performance management issues than company-based social initiatives may seem counterintuitive. After all, the culture of measuring performance is an essential part of business operations. Still, when it comes to measuring outcomes, CSOs appear to be doing somewhat better than companies by focusing on stakeholders and identifying how they create value. Although this finding merits further investigation, one plausible explanation may be that company-based initiatives are not required to present evidence of effectiveness to secure funding and thus are less concerned with measuring outcomes. Another possible explanation is that company-based initiatives are secondary to business operations, mainly serving as venues for philanthropic giving, fostering the good will of customers, and improving the image of the company in the community,

whereas for the CSOs the social initiative is what justifies its existence. Also, the methodological complications inherent in measuring social impact make this a difficult task. These are some conjectures that could be the focus of further studies.

As said earlier, most of the social enterprises studied could do better in terms of measuring their outcomes. If one considers that these initiatives were noted for their visibility as exemplars of effective nonprofit practices, there is ample room for improvement in evaluative practices. A few of the social enterprises in the sample have made creditable efforts to define both operating indicators and outcome indicators. A clear definition and focus on operating indicators is the only way of integrating the performance measurement system into the management system. By measuring critical operating dimensions within the Performance Assessment Chain (as depicted in Figure 9.1), it is possible to increase the likelihood of producing the positive outcomes that are pursued by a social enterprise. ACHS has made a serious effort to develop a network of information that integrates operating and outcomes indicators into its management system. One factor that may explain its sophisticated system of performance measurement is that ACHS works in a highly competitive environment. Efficiency is a core consideration if the organization is to survive and flourish in the future, and thus the investment of considerable resources to maintain a constant flow of information appears to be amply justified.

Following are suggestions for practitioners derived from the examination of the social enterprise cases in the sample, existing literature, and the various concepts presented throughout this book, which can help them gauge if they are on track towards the development of a comprehensive system of performance measurement that is integrated into the management system.

Allocate Resources and Assign Responsibilities for Performance Measurement

A performance measurement system that is integrated to the overall management system of the organization requires resources. In general, organizations that make use of performance information have a professional manager in charge of compiling and communicating the information throughout the institutional levels. Ideally, the person in charge of the performance measurement system should strive to promote involvement of other members of the organization in the development of the outcomes assessment efforts. This would help to foster a sense of ownership throughout the organization and to focus attention on constructive ways

to improve processes in the attainment of results. Organizations should avoid focusing the performance measurement system on identifying who is to blame for lack of desired results. If performance measurement is perceived as a threat, it is likely to alienate staff and jeopardize its use as a management tool.

Organizations that appear to make good use of performance data either have hired staff trained in outcome measurement and outcome management, or they have invested in training the members of the organization to develop their skills and expand their understanding in the field. An additional consideration is the need to retain the staff that has been trained and skilled in performance measurement in the organization. It appears that social initiatives that have achieved a low turnover of skilled staff have been able to develop more sophisticated management systems that include performance measurement. Consequently, trained measurement specialists should be viewed as an asset and treated accordingly.

Promote Board Involvement in Performance Measurement

Board involvement in outcomes management is a key feature in organizations that have developed a strong system of performance measurement. In this respect, a committed board can play an active part by holding the organization accountable for achieving the desired results.

To achieve a high-performing social endeavor, each organization needs to build its capacity for developing a cogent performance measurement system as part of its management systems, and its board can provide a leading role to accomplish this. A board can help shape a culture of performance assessment in the organization and prevent it from becoming an isolated activity. Given the technical nature and complexity of the topic of performance measurement, it may not be feasible to hire staff with expertise in the area. A good way to build critical measurement capacities required by the organization is to incorporate a board member knowledgeable in the field. For example, consultants and skilled volunteers, such as university faculty members or other trained professionals, may be important resources to consider when looking for new board members.

Develop a Mission Statement That Is Meaningful and Easily Made to Work

An operational mission statement is necessary for measuring performance. A vague or general mission statement needs to be translated into concrete goals and specific beneficiaries if impact is to be assessed. In terms of defining an operational mission, it is interesting to note that the life-stage of the social initiative appears to be related to it. Thus, in the sample of social

enterprises included in this study, the ones that had a longer history appeared to have more sophisticated systems of performance measurement. For those that had developed a performance measurement system, the process seemed to have evolved over the years, once the more pressing need of survival had been met. Only rare exceptions reported having clearly defined outcome indicators at the outset of the initiative. Yet it may be hypothesized that having the capacity to develop an integrative framework of performance assessment from the start enabled those initiatives to function more effectively and increased their chance of permanence.

At this point it is not clear whether the existence of performance measurement efforts is an effect of surviving long enough or a causal factor that explains the sustainability of organizations. Still, it is desirable to develop an integrative management framework that encompasses mission, strategy, and outcomes. And the first step to achieve this integration is to translate the mission into an operational definition.

Work on the Alignment of Strategy and Mission through the Development of Operating Indicators

Few of the organizations studied had defined operational indicators and even fewer had developed an integrated system of performance measurement and management systems with a focus on operating indicators. At the same time, our research indicates that close alignment between strategy and mission represents a higher stage of functioning of social endeavors.

The challenge for social enterprises is to be able to develop operating indicators to assess the degree of alignment between mission and strategy within a coherent management system. A clear mission statement and the definition of a strategy are the starting points to be able to assess the alignment between mission and strategy. These are necessary but not sufficient elements to guarantee that alignment will occur. Even though the gold standard for the evaluation of the performance of an organization is the degree of attainment of its mission measured through outcome indicators, a wider focus on operating indicators appears to be a wise strategy for success. Some consider that the efforts to measure outcomes may be too costly and often slow to produce comprehensive and fast feedback on how an organization is performing on a daily basis. Therefore performance measurement should not be exclusively focused on outcomes. Managers of social initiatives would be better off using a mix of outcome, output, process, and input indicators to allow them to assess the value of what they are creating and finding new ways to improve their performance.[2]

This dimension of strategy and mission alignment poses the greatest challenges to the development of relevant operational indicators. It is probably best addressed through a combination of quantitative and qualitative methods. The transition from one organizational mission to another, or unresolved internal or external conflicts over what the mission should be, may lead to a lack of alignment between the strategy and mission. The development of a solid alignment between mission and strategy is likely to boost the organization's potential to produce positive outcomes and greater social value for society.

Define Desired Outcomes and Use Specific Indicators to Monitor the Impact of the Organization and Progress in Mission Fulfillment

Board members and managers of nonprofit endeavors and private businesses with social initiatives should not be content with simply measuring outputs. Particularly for CSOs, from a pragmatic perspective, a focus on outcomes assessment can pay off by being used as evidence of effectiveness and thus provide leverage for fundraising efforts and for securing long-term donor support in the community.

In summary, for all organizations, a sharper focus on performance measurement should provide a better sense of what works and what does not, and provide information about what should and should not be replicated, keeping in mind that there are no magic solutions that will work for all social initiatives. Practitioners should consider the particular context and characteristics of their organizations, and their interventions should be geared to facilitating the development of tailor-made evaluation systems. The long-term survival of many of these visible social endeavors in the region may ultimately depend on their capacity to show tangible results.

As revealed by the case studies in the sample, performance measurement should play a more prominent role in the management of social endeavors, particularly company-based social initiatives, which appear to be less focused and specific in terms of definition of a mission and measurable goals than are those of CSOs. As mentioned, this counterintuitive finding merits further exploration.

A final issue to ponder is that even though many of these highly visible organizations have not developed an adequate performance measurement framework that is integrated to its management system, they seem to be flourishing in the eyes of their peers. However, high visibility or high standing in the eyes of the public is not necessarily synonymous with best

performance. It appears that many organizations in Iberoamerica are still judged on the basis of reputation rather than on actual evidence of social impact. If they appear to do good deeds, then the institution ranks highly in the eyes of the public, as was true in years past in Europe and the United States. This is likely to change in the years to come. In an environment where outcomes matter, the example of the preacher and the taxi driver may apply to social initiatives, and organizations may find themselves being judged on outcomes rather than on image. For those organizations that have not developed a focus on outcomes, getting started on performance measurement may be the best way to ensure future sustainability.

Notes

1. Used by Harry Hatry, *Performance Management* (Washington, DC: Urban Institute Press, 1999). The example has been adapted with the author's permission.

2. Suggested by Mark Moore, "The Public Value Scorecard: A Rejoinder and an Alternative to 'Strategic Performance Measurement in Nonprofit Organizations,'" in Working Paper 18 (Boston, MA: The Hauser Center for Nonprofit Organizations, Harvard University, 2003).

10

Creating Social and Economic Value

We grew up in a world in which the creation of social value was assumed to be the exclusive domain of governments or the nonprofit social sector, much as the creation of economic value was associated, by and large, with the business sector. In today's world, however, the social and business sectors are expected to deliver both economic and social results. Insofar as mounting expectations place demands on managers that they are not always adequately prepared to handle, the result is often perplexity and frustration. Not many social leaders approached their formal education or hands-on professional training with the primary goal of becoming efficient managers of scarce resources—and fewer imagined that the delivery of goods or services, at competitive price and quality, would be counted among their day-to-day worries. Similarly, not many business leaders imagined a few decades ago that the social dimension would occupy such a prominent place in their portfolio of responsibilities. It used to be that community involvement was what business leaders did in their spare time or when they retired—not so nowadays, as the many examples discussed in the previous chapters confirm.

Thus we can help leaders by working towards a clearer understanding of what social and economic value creation actually means. After reviewing the accomplishments of several social enterprises in our sample, we explore the meaning of value creation in the context of social enterprise, propose a definition for economic and social value, and offer reasons for aligning both in an integrated value proposition.

What Type of Value Shall We Pursue? The Value Proposition

At the dawn of a new century and despite their various achievements, Iberoamerican nations still suffer a broad range of unmet basic social needs. Within each of these countries, however, a number of civil society organizations (CSO) and businesses work on a daily basis to provide solutions to those needs. When they succeed in doing so, they *create value* for society; that is to say, they contribute to its betterment. Value is created every time needs are met.

Many of these needs are met through the work of private markets. Products that not long ago were reserved to the elites have now become massive. Despite some shortcomings,[1] it is difficult to deny that when a company satisfies the needs of large number of people in a free market, generating employment, operating legally, and paying taxes, it creates tangible improvements in the life of individuals and communities. Markets do make important contributions to society, but generally these are unintended by-products of economic activity, Adam Smith's "invisible hand" of the marketplace. Without ignoring the importance of those contributions, we leave them aside to concentrate on those that materialize from initiatives which deliberately pursue the attainment of socially desirable objectives.[2] We call these social enterprises, and they can be found in both the private and the third sectors. Businesses undertake social purpose activities in conjunction with their primary commercial activities. CSOs' primary activities are social purpose even though they can also have commercial activities.

The generation of value is the ultimate objective of any enterprise. The imperative of value creation is what places it at the center of the Mapping Framework set forth in Chapter 1 as the Core Purpose. It is difficult to conceive of any organization, in either the social or private sectors, which would not consider the creation of value for its clients to be of paramount importance. This aspiration is usually encapsulated in the enterprise's **value proposition**, outlining how the clients' lives will be improved through the solutions delivered by the enterprise. A proposition is then "a promise to satisfy" an unmet need.[3]

In the context of social enterprise, this promise necessarily involves attaining socially desirable outcomes that are not spontaneously produced by private markets. The value proposition is the foundation stone of any social enterprise, as it determines its strategic focus, with important implications for its structures, processes, and resource allocation. "Tell me what your value proposition is, and I will tell you what type of organization you will need to deliver it." Thus the definition of a clear value proposition should be the first question that anyone aspiring to lead a social enterprise should tackle.

A well-stated value proposition should tell us what type of value is being generated through the answer to two related queries: *who* is being served and *how*. In social enterprise, value creation is about mission attainment,[4] and vice versa. Thus the definition of who the ultimate beneficiary of the organization's efforts will be should stem from its mission. The age-old dictum of "know your customer" of private businesses is as

relevant in social enterprise—if not more so. It is almost impossible to conceive of a social enterprise delivering value in isolation, detached from its clients. The precise knowledge of the needs of the enterprise's primary customer, through a sustained and ongoing engagement, is absolutely crucial to focus organizational efforts in the right direction.

This is not to say that the generation of benefits should be limited to the primary beneficiaries of the enterprise's efforts. An important difference between social enterprise and traditional commercial ventures is that those who receive the goods or services delivered are not always those who pay for them. Most social enterprises will have many different "clients" to serve, whose perspectives and preferences will have to be factored into its strategy. Moreover, although the strategic focus should be mission driven and aimed primarily at beneficiaries, it could be argued that an effective strategy should have a number of subordinated value propositions for each key stakeholder: *What are we offering to this important constituency?*[5] Sometimes social enterprises create benefits for these stakeholders in unexpected ways. The ability to create win-win situations, in which value is delivered to a target population with an unmet need while also benefiting a whole range of other interested parties, is at the very heart of effective social enterprises.

In sum, the value proposition of any social enterprise should provide answers to three of what the Leader to Leader Institute calls "the five most important questions for any nonprofit organization": *What is our mission? Who is our customer? What does the customer value?*[6] Once the social enterprise defines whom it serves, it has to clarify the ways in which it will do so. Our research identifies a dual path: the creation of economic and social value. It is important for managers to have a clear understanding of the distinction; though in essence both are about meeting needs, they involve different dynamics. The creation of economic value is about seeking opportunities wherein the price people are willing to pay for that solution exceeds the cost of producing it, in effect creating material wealth. On the other hand, the creation of social value is about bettering people's lives through the pursuit of socially desirable outcomes. Both dimensions can be put to work so as to feed and reinforce each other, if integrated into a coherent value proposition.

A Familiar World: The Creation of Economic Value

As we saw in Chapter 7, some social enterprises create value through the delivery of goods or services with competitive pricing and quality. These are initiatives that seek to produce socially desirable outcomes through

market mechanisms, at least in part. The dynamics at play in the creation of economic value in social enterprises are no different from what takes place in regular commercial exchanges: customers' willingness to reward the provision of the good with their own resources shows that value is being acquired, and the price paid provides an indicator of the magnitude of the value being captured. "The value a company creates is measured by the amount that buyers are willing to pay for a product or service. A business is profitable if the value it creates exceeds the cost of performing the value activities."[7]

Managers create economic value by developing the organizational ability to respond to customers' needs in a cost-effective way. This entails serving clients' needs to the fullest extent, on the one hand, while minimizing production costs, on the other. "Value increases when the satisfaction of the customer's need augments and the expenditure of resources diminishes."[8] Taking those two elements into account, we will define economic value (hereafter, EV) as that whose benefits can be captured and rewarded by its recipients, provided that the price paid exceeds its cost. This definition looks at the economic component of a social enterprise value proposition.[9] It approaches value creation from the perspective of the social entrepreneur and/or the private sector manager, both of whom deliver solutions to their target population. At the same time, when price exceeds cost, the initiative creates EV for the enterprise itself.[10] Some enterprises can create simultaneous gains by generating EV for producers and recipients while contributing to societal betterment. From this perspective, EV will be created as long as there is surplus after all costs are factored in, even if the price charged was not the maximum amount that market conditions might have allowed.

Conceptualizing EV is fairly straightforward, but things get a bit more complicated once we venture into the realm of social value creation. The next section explores that challenge in some detail.

Toward an Understanding of Social Value

What is distinctive about the value proposition delivered by social enterprises, in both companies and CSO? What, if anything, can help us see the ways in which these initiatives have bettered our communities? We started this study with the goal of studying a set of high-performing social enterprises. We broadly defined this concept (in Chapter 1) as any initiative which deliberately pursues the attainment of socially desirable objectives. With the benefit of having gone through the in-depth analysis of our cases, we will now move one step forward and attempt to construct some key

concepts as they emerge from the accumulated empirical evidence of our case sample. The answer proposed below is based on a set of experiences that is broad but nonetheless limited: it is a slice of reality. Although there might be general lessons to learn from it, our sample covered a narrow portion of reality, and may not have universal applicability. Our aim is to advance the thinking about value creation by offering some tentative conceptualizations and relationships.

Presence of Barriers

One element that appears prominently across the board when looking at our collection of case studies is the presence of some type of obstacle. The circumstances change, as well as the characteristics of the target population, or the good or service being delivered, but an almost universal feature of social enterprise is the presence of a barrier that prevented a basic need from being met.

Price/income barriers. Price and income emerge as the most obvious barriers in our sample. A good portion of societal needs are served by markets, which deliver the goods and services that we collectively demand, at a price. However, absolute poverty and imbalances in the income distribution, particularly in the developing world, determine that important portions of mankind have only limited access to that exchange. To tackle this problem, some social enterprises work to lower price barriers, bringing these goods and services within reach of the purchasing power of the populations they serve.

- **Consumer goods**. The Colombian CSO Caja Colombiana de Subsidio Familiar (Colsubsidio) was created in 1957 by business leaders from Bogotá, with the objective of administering family subsidies that were mandated by law (4% of payroll) and help offset low incomes. Colsubsidio leveraged the contributions of the affiliated companies to develop an extensive network covering a broad range of activities, from the delivery of basic social services such as health or education to the retail commercialization of mass consumer goods in proprietary supermarkets or cultural items sold in their own art galleries. What this varied offering had in common was the goal of lowering price barriers in order to make those products accessible to the organization's constituencies. By 2003 Colsubsidio administered annual revenues of approximately $280 million dollars and provided services for approximately half a million workers.

- **Formal education**. Education is a strategic leverage that can equalize opportunities or perpetuate social fractures when systematically denied. Some socially oriented initiatives aim at delivering this good to those who are not being adequately served by the public sector or spontaneously reached by the private markets. Fe y Alegría (FyA) is an international network of CSOs that target low-income and socially excluded populations to stimulate their personal growth and integration with their larger communities. FyA programs deliver formal education for disadvantaged individuals at various levels: pre-school, primary and secondary school, professional training, adult education, distance learning, and teacher training, among others. FyA started in Venezuela in 1955, and in ten years it expanded to 14 other Latin American countries and Spain. By 2004, it was calculated that 1,232,140 individuals had benefited from the network's programs. Despite the massive scale of its reach, the network was highly respected for the excellent quality of its education in all the countries where it operated. In sum, the value proposition of this social enterprise consisted in bringing high quality education within reach of low-income populations by lowering price barriers, among others.

- **Sexual education and family planning.** If low-income populations are not given the appropriate tools, uncontrolled family growth can become an insurmountable obstacle on the road to socioeconomic achievement. In these situations, social enterprise can help by providing education that leads to better informed decision-making. The Asociación Probienestar de la Familia Colombiana (Profamilia) is a Colombian CSO founded in 1965 with the mission of controlling the population growth and educating society to make informed reproductive decisions. This organization lowers price barriers, bringing sexual and reproductive health within the reach of low-income sectors. Since the 1980s, Profamilia has played a leadership role in the International Planned Parenthood Federation. It is the largest organization of its kind in Colombia—and second only at the global level to the Planned Parenthood Federation of America.

- **IT training and the digital divide:** It is generally accepted that the explosive developments in information technology during the last decade have revolutionized societies, bringing new opportunities for intellectual and material growth. Since income barriers

prevent the disadvantaged sectors of society from participating in the IT revolution by their own means, the gap between "haves" and "have nots" threatens to widen in the absence of resolute action. Some social enterprises have stepped in to fill that gap. The Comitê para Democratização da Informática (Committee for the Democratization of IT, or CDI) is a Brazilian CSO created with the mission of promoting digital inclusion as a way of constructing and exercising the rights of citizenship. That concept is put into practice by giving access to up-to-date technology to the most deprived sectors of society. The organization was able to scale up its operations quickly through an innovative model of "social franchises."

Non-price barriers: exclusion from capital markets. While high prices do diminish the quality of life of low-income populations, they are only part of the problem. Contrary to common wisdom, the poor sometimes pay prices that can be much higher than those paid by more upscale sections of society for similar goods or services. As C. K. Prahalad points out, in the developing world, the slum dwellers pay for drinking water from 4 to 100 times as much as middle class families, and 20 to 30 percent more for their food.[11]

Financial credit appears prominent among the services that the poor systematically overpay. Given that access to financial capital is a key leverage towards better living conditions, via the enhancement of the productive capacities of the poor, this is an obstacle that social enterprises tackle very often. Traditional companies operating in capital markets have tended to ignore low-income sectors. The barriers preventing these companies from servicing the disadvantaged are multiple, but price is certainly not one of them: when borrowing from the so-called "loan sharks" the poor had to endure interest rates of up to 10 percent a day and still managed to run their small-scale businesses profitably and honor their financial commitments. By working to lower the barriers of access to capital at reasonable rates, micro-finance aims at giving the disadvantaged "the tools they need to work their way out of poverty."[12]

The Fundación Pro Vivienda Social (FPVS) was founded in Argentina in 1992 by a group of business leaders, with the mission of uplifting the living conditions of the poor through improvement in their housing. This was achieved through a program of targeted micro-loans: in 1995 FPVS launched the Program for Home Improvement, a system of collective responsibility and technical assistance for low-income families interested

in expanding or remodeling their houses. In the first five years of operations, 5,540 families received micro-credit from FPVS in 3,160 collective loans, for a total of approximately $8,000,000 dollars.

Symbolic barriers: fractured collective identities. The barriers that curtail access to goods as basic as financial capital or drinking water are clear for anyone to see. On the other hand, some intangible barriers are not as evident to the casual observer, although their effects can be quite real and as harmful as any. The Fundación Crear Vale la Pena (CVLP) was created in 1993, with the mission of using art education and artistic production to promote social inclusion of disadvantaged individuals in Argentina. The organization operated under the assumption that art can be used as a powerful instrument in the construction of individual and collective identities. To that end, this CSO has built Community Cultural Centers in low-income neighborhoods, which were then integrated in broader cultural networks to counter the perceived socioeconomic fracture between sectors of the same community. The existence of these barriers became evident when the participants were invited to show their work outside their barrios, to a more diverse audience. Despite the early successes that these youngsters had enjoyed in the presentations made in CVLP Community Centers, they rejected the idea of touring the country and sharing their art with the rest of Argentine society. To Inés Sanguinetti, CVLP's founder, this rejection stemmed from the serious difficulties that low-income people have in constructing an identity that had meaning outside their self-contained communities. In her own words, "Right there I found in a very palpable way what's sometimes referred to as the 'exclusion wall,' and concluded that this damaged identity is the product of the fractured societies we live in."

Geographical remoteness: no access to public services. Physical access cannot be taken for granted, particularly in the developing world. By 2002, 92 percent of El Salvador's urban population had access to drinking water, but the rate fell to only 48 percent for its rural population. This group obtained most of its water from contaminated nearby wells, or had to walk long distances to reach alternative sources, at great cost, both financial and human. To overcome this problem, the community of the town of La Loma created a grassroots CSO, the Asociación Comunal de Salud, Agua y Medio Ambiente (ACOSAMA) to operate and manage its water supply. Most of the available water in the countryside was polluted, which made ACOSAMA's work all the more valuable for the communities it reached. Besides assuring a steady supply of drinking water, ACOSAMA also helped

to strengthen the provision of health services in the communities where it operated.

Weakened Target Populations

Another pervasive feature of social enterprise is the presence of a severely weakened group among its target population. Poverty creates a set of conditions that—if not tackled appropriately—restrict access to growth opportunities and perpetuate income disparities. It weakens the very same resource that could be leveraged to lift people towards a better life: the capacity to act autonomously, on one's own behalf. Tackling these barriers sometimes does not involve lowering prices or redistributing material wealth, but rather empowering the disenfranchised.

Infringement of basic rights. It is no secret that poverty can lead to the deprivation of a number of basic human rights. Intermón Oxfam (IO) is a Spanish CSO founded in 1956 with the mission "to bring about change towards fair structures which enable everyone to exercise their right of a life of dignity."[13] To that end, it works to organize the disenfranchised so that they can act autonomously, securing their most basic rights. Since 1997 it works in coordination with the other 11 members of Oxfam International, a global confederation of CSOs that work on Third World development. As of 2004, IO administered more than 600 development projects in over 40 nations in Africa, Latin America, and Asia. IO provides emergency relief in the developing countries and carries out campaigns in Spain to generate awareness of the suffering of the world's destitute, with the purpose of promoting a cultural change towards solidarity. It also foments fair trade between North and South. IO is a consultative member of the United Nations, the International Fair Trade Association, and other national and international bodies.

Feeble institutional fabric of local communities. Some companies have learned that they cannot prosper as isles of prosperity in an ocean of despair. The Colombian oil company Hocol has developed a trilateral model, based on the collaboration of community, company, and government. Hocol intervenes on several fronts, but has a single overarching goal: to reinforce the autonomy and capabilities of the communities where it operates, both grassroots organizations and local governments. Only when communities are well-organized and able to speak up on behalf of their interests can they hold the local government accountable for its responsibilities. At the same time, an efficient government able to satisfy society's expectations is the best way of assuring a positive social climate. Some

social enterprises strengthen communities and governments by transferring technology, channeling resources from third parties, and in general increasing their management and institutional capacities.

Marginalization and delinquency of youth. Endemic segregation sometimes put some low-income youth on the slippery path of marginality, which unfortunately at times has no return. Instead of fighting insecurity the traditional way—through barbed wire and armed guards—some companies are taking a more forward-looking and enlightened stance. The case of C. A. Ron Santa Teresa, Venezuela's largest producer of rum, is an inspiring example of this alternative approach. The company discovered that it was getting "diminishing returns" from its investment in security. As erecting ever-higher fences was not proving effective to that end, the company took the opposite route and reached out towards the community. The result was "Alcatraz," a program named after the iconic prison in California. This quite original initiative aimed at creating educational and economic opportunities for chronic young petty criminals, under the assumption that a large portion of them resort to criminal activity out of lack of opportunities. In this program, young individuals agree to seclude themselves in an intensive program of reeducation through work, sports, and community service. Those who make it through the initial phase receive some financial support and the opportunity to participate in various internships. Finally, in the last phase, participants "graduate" when they obtain a stable job in one of the different self-sustained business ventures launched by the company. At all times during the project, access to its benefits depends on positive behavior by participants. Although the project is still a work in progress, preliminary results seem to be encouraging.

Lack of Voice

In some instances the enterprise serves the needs of groups that are not strictly "weakened," but which by definition lack a voice with which to defend its legitimate rights and interests. The goal of social enterprise here is not to empower or strengthen, but rather to protect the general good by giving a voice to those who otherwise would remain mute.

Children and teenagers. One of these voiceless groups is the population of children and teenagers. Although one might expect their rights to be protected by their families, the legal framework, and the public agencies of their nations, the sad reality is that often youngsters are victims of systematic abuse. Given that this collectivity can seldom protect its rights autonomously, civil society and the private sector have stepped in to try to

fill this gap. The Fundação Abrinq pelos Direitos da Criança e do Adolescente (Abrinq Foundation for the Rights of Children and Teenagers) is a Brazilian CSO charged with the mission of "promoting the defense of children and teenagers' rights, as well as their active citizenship." It pursues that goal by mobilizing civil society and government to support its agenda. The CSO workers see themselves as bridge between those in need of help and those willing and able to provide that help. The Abrinq Foundation has played an important role in raising the awareness of Brazilian society in the area of children's rights.

Consumers. Another such group is that of consumers, who in principle form a loose collection of individuals lacking the capacity to articulate their needs and act as a collectivity. Social enterprise can work to construct an actor capable of voicing concerns and play a constructive role in cross-sector dialogue. The Instituto Brasileiro de Defesa do Consumidor (IDEC) does precisely that. This is a CSO created in 1987 in São Paulo, Brazil, with the mission of promoting the awareness and the rights of the Brazilian consumer through information and education.

The physically or mentally handicapped. The Hogar de Cristo was established in 1995 as part of the Catholic network Caritas, with the goal of looking after the most vulnerable members of Peru's society: children, teenagers, young adults, and those with mental or physical handicaps. In 1998 it was incorporated as an independent CSO, and since then it has experienced an explosive growth, both in terms of its geographic reach and the number of beneficiaries. Because of its proved effectiveness in tackling its mission, this CSO has managed to convene large numbers of volunteers to help with the cause, and has succeeded in gaining the support of Peru's private sector and government.

The environment. Another key target of social enterprise which by definition lacks its own voice is the environment. Our natural environment lacks the capacity to defend its own interests, and as with any other public good, it suffers the "tragedy of the commons"[14:] the entire society benefits from it, but its individual members have incentives to abuse and deplete it. Some social enterprises seek to protect the environment, thus looking after society's interests. The Grupo Balear de Ornitología y Defensa de la Naturaleza (GOB Menorca) is a Spanish CSO which works to protect the rich environment of the island of Minorca, Spain. That mission is carried out through a strict monitoring of government and private sector activities that might infringe environmental legislation ("watchdog"), as well as by research, education, and public campaigns that seek to create public

awareness of the issue. Throughout its 30 years of existence the quality of the CSO's work has been recognized by various organizations at the local, national, and international levels.

Undesirable Side Effects

When an organization delivers a good or a service that serves the needs of its clients while abiding by the law, it creates value for them and contributes to societal betterment. Yet many legitimate goods or services may have unintended side effects that could be harmful from a societal viewpoint. Many of those side effects are effectively handled by markets or public enforcement of mandatory regulation, but some are dealt with through social enterprise.

Negative externalities. In some cases the negative side effects may be the direct consequence of the economic activity. The creation of economic value may bring external costs, which, if unchecked, would be imposed on third parties—what the economists call "negative externalities." An example of this is the disposal or recycling of environmentally sensitive goods, whose costs in principle are not borne by either its makers or its consumers. Some social enterprises address these negative side effects, in effect safeguarding society's interests. One such initiative is the "Waste Management System" put in place by Grupo D. Paschoal, Brazil's largest retail seller of tires, with the objective of collecting used tires and other materials from its clients' cars in an environmentally responsible way. The program has achieved positive results in terms of generating a socially responsible frame of mind within the company, while at the same time generating new business opportunities derived from the recycling of those materials.

Responsibility "by association": earning a societal license to operate. In other cases, the harmful side effects may simply be associated with the economic activity, even if not strictly caused by it. For example, it is difficult to argue that makers of alcoholic beverages cause alcoholism, although both are certainly associated. In these situations, those who are seen as being "part of the problem" implement initiatives to become "part of the solution." In this way, they gain what has been termed a "societal license to operate." For example, in Mexico the social responsibility of beer producers in the face of alcohol abuse has been the object of fierce debate during the last decade. To deal with this situation, the Cervecería Cuauhté-moc Moctezuma (CCM), one of Mexico's oldest and most prestigious brewers, launched various initiatives aimed at educating the public about the values and ethical norms that are most conducive to a responsible and

rewarding lifestyle. Among these programs were the Workshop for Promoters of Responsible Life, the Program on Designated Drivers, and the Responsible Consumption in Sports Program. All of these programs convened representatives from government, universities, sport celebrities, and the media.

Summing Up: Towards a Definition of Social Value
We have examined the various elements that emerge from our case sample as the distinctive parts of the noneconomic value created by social enterprises. If the creation of social value is social enterprise's ultimate goal, those elements should help us construct a definition for that elusive concept. Figure 10.1 below summarizes the points made so far.

Figure 10.1
What Is Social Value about? Common Elements in Our Sample

Presence of barriers	Price/income barriers	Consumer goods Formal education Sexual education and family planning IT training and the digital divide
	Non-price barriers: market failures and access to credit	
	Symbolic barriers: fractured collective identities	
	Geographical remoteness: no access to public services	
Weakened target populations	Infringement of basic rights	
	Feeble institutional fabric of local communities	
	Marginalization and teenager petty crime	
Lack of voice	Children and teenagers	
	Consumers	
	The physically or mentally handicapped	
	The environment	
Undesirable side-effects of economic activity	Negative externalities	
	Responsibility by association: need of a societal license to operate	

On the basis of this summary, we propose the following definition. Social value (SV) is "the pursuit of societal betterment through the removal of barriers that hinder social inclusion, the assistance to those temporarily weakened or lacking a voice, and the mitigation of undesirable side effects of economic activity." As opposed to EV creation, where value is autonomously captured by the beneficiaries and rewarded with their own resources in a commercial exchange, here social enterprise helps the beneficiary to capture value that, for various reasons, would have been out of reach. We suspect that additional research may identify yet additional categories of barriers to human betterment.

At this juncture it might be useful to reiterate a point made earlier: when markets function well, they do make important contributions to society. The case made here is not that SV lacks an economic dimension, or that EV does not perform any social role. Rather, we seek to draw a conceptual line that will help us distinguish what is unique about each of them. Well-functioning markets serve society in a number of ways, but for methodological reasons we leave those dynamics aside in our definition of SV, to concentrate in areas that are not reached by the hidden hand of the markets.

It is also interesting to point out that some of the benefits that social enterprises create go beyond the specific product or service contained in their value proposition, and are process-related. A distinctive feature of the governance of these initiatives is that they bring together individuals from different sectors, including civil society, trade unions, private business, academia, and government, among others. It is no secret that historically these groups had not always cooperated with other. By inducing them to work together, aligning their agendas towards a shared objective, social enterprises increase the capacity of societies to work cooperatively towards the public good—creating in fact what some have termed "social capital."

Because SV cannot be encapsulated in a single universal metric such as ROI, the value that the social enterprise aspires to create needs to be defined and bounded in its value proposition: as mentioned earlier, value creation is about mission-attainment. A social enterprise's value proposition should tell us what type of value is being generated. If the enterprise serves its beneficiaries by knocking down barriers that hinder social inclusion, assisting those temporarily weakened or lacking a voice, as well as mitigating undesirable side effects of economic activity, the value being created will be social. If the enterprise generates goods or services that the recipients obtain through market transactions, in which they freely choose to reward the provider with their scarce resources at prices above production costs, the value created will be economic (see Figure 10.2).

Figure 10.2
Value Proposition:
What Type of Value Is Being Created by the Social Enterprise?
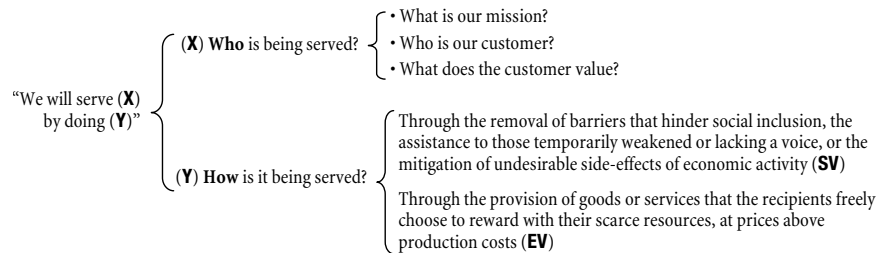
The Relation between EV and SV

The definitions of EV and SV as two distinct concepts do not imply that the creation of SV is in itself distinct and removed from the creation of EV. Far from being incompatible, the two can go hand in hand and even become mutually reinforcing. By stating that a social enterprise combines the creation of EV with that of SV, we mean that it creates value that can be captured and rewarded by recipients—such as clients with strong purchasing power—while at the same time creating value in socially desirable ways, which the market would not have spontaneously rewarded.

Both dimensions can be integrated into a single "package." For example, the Spanish courier MRW integrates a social component in many of its offerings. In essence, what these programs do is to lower price barriers to those who, in the company's view, merit special attention, in order to ease access to company services. For example, MRW grants substantial discounts to deliveries made by NGOs working in peace and development, or to families with more than two children. Similarly, the Argentine CSO Fundación Pro Vivienda Social (FPVS) works to uplift the living conditions of the poor through improvement in their housing conditions. In 1995 the foundation launched the Program for Home Improvement, which featured a system of collective responsibility and technical assistance for low-income families interested in remodeling their houses. In the first five years of operations, 5,540 families received micro-credit in 3,160 collective loans, for a total of approximately $8,000,000 dollars. This program aims at making FPVS's services affordable while at same time delivering them efficiently enough to secure a surplus in their operations. In the words of Luis Otero Monsegur, a board member, this is a rule that assures the long-term sustainability of the effort: "It is simply a matter of basic good management."

Alternatively, EV and SV can be integrated through cross-subsidies between different products, between one with strong SV and another with strong EV. The Costa Rican INBio was founded with the mission of creating awareness about the nation's biodiversity, promoting its conservation and improving the quality of life of the country's citizens. This CSO found that unless biodiversity was shown to be economically and intellectually valuable, society was unlikely to continue paying its high maintenance costs, with disastrous implications for the environment. In 1991, INBio signed an agreement with the multinational pharmaceutical corporation Merck with the goal of using the nation's unique environmental assets to create economic wealth, which in turn would be used to promote the CSO's mission. INBio would provide Merck with active components of plant and insect samples, and Merck committed to an upfront payment of about $1.1 million dollars, a percentage of royalties from any commercial drug that was developed from an INBio sample, and equipment and training for INBio's staff. In this way, INBio's creation of EV provides the funds that sustain the environmental programs of that organization. Similarly, the CSO Profamilia uses some of the resources obtained from infertility treatment, which are delivered at premium prices and target upscale sectors of society, to subsidize family planning services, delivered below cost to low-income sectors.

A number of social enterprises operate in competitive markets in which both not-for-profit and for-profit organizations participate. The fact that in many of these enterprises the altruistic driver coexists with a utilitarian, profit-oriented one does not necessarily diminish its potential for SV creation. Consider the field of micro-finance in which a group of pioneering CSO created, through various organizational innovations, a profitable market in a segment that had been previously written off by traditional players in the financial industry. When their example showed the viability of their operations, a number of socially oriented private businesses entered the market.[15] The fact that these organizations have private owners with a "residual claim on profits" has not hindered their capacity to knock down barriers that prevented access to credit. In fact, the greater infrastructure and resources that these private companies command allow them to reach many more micro-entrepreneurs. These socially oriented companies intentionally seek to create social value, while simultaneously seeking economic value. Both coexist, with equal importance in some cases. Not only are they compatible, they are synergistic.

At the same time, it is possible to foresee a point in which these organizations could stop creating SV. The work of the early CSOs was tremendously

valuable from a social perspective, in that they knocked down a barrier that was preventing micro-entrepreneurs from leveraging their creativity in pursuit of economic value creation. By serving a population that markets were not targeting spontaneously, they created SV. So long as access to credit remains elusive to low-income populations, any organization that facilitates it will create SV. But from a conceptual perspective, it could be argued that if the micro-finance market matured to the point of erasing all barriers, in a hypothetical world in which every individual in need of credit could be served by the invisible hand of profit-making, these initiatives would stop creating SV. Micro-finance would still be useful to society, but the social contribution of these organizations would be an unintended by-product of the creation of EV. In effect, the social market failure that had previously excluded the population from credit access would have been corrected so that the market could now meet the people's credit needs. Since mission attainment and financial sustainability are not always aligned in the social sector, "there may be no necessary connection between the survival of the organization and the (social) value it is producing."[16] In these situations, it might make better sense for some CSO to redirect its scarce resources to more socially valuable alternatives.

Why Align the Creation of SV and EV in a Social Enterprise?

After casting a conceptual frontier between the concepts of SV and EV, it is now time to think how social enterprise can work to maximize both, exploring how they can go hand in hand and become mutually reinforcing. There might be good ethical reasons to maintain the value proposition of specific social enterprises limited to the social dimension and avoid an economic dimension. At the same time, introducing an economic dimension is not a panacea and could bring some negative tradeoffs in terms of mission attainment;[17] moreover, it carries the normal risks of any commercial operation.[18] While one needs to be cognizant of the negative outcomes, there are good reasons to expect gains through the creation of synergies between SV and EV.[19]

Why Align SV and EV Creation in a Civil Society Organization?
Inserting an economic dimension into the value proposition of a CSO tends to generate some virtuous effects. Generating EV implies the provision of a good or service at a competitive price/quality, sometimes in open and intensely competitive markets. Since the production of EV is easily quantifiable, it lends itself to more rigorous monitoring of performance measurement. In turn, this imposes on the organization a discipline and a

results-oriented culture that is difficult to obtain in the absence of an economic element. That is why very often high-performing CSO do have a component of EV creation in their value proposition.[20]

Traditionally, CSOs tended to focus their attention on two questions: "How can I fund my projects?" and "How can I keep my overhead low?" Introducing the dynamics of EV creation generates new perspectives and priorities. Minimizing costs and maximizing efficiency and efficacy are very different things, and require a different understanding of the role of the social enterprise. Instead of picturing themselves as project administrators concerned mainly with securing uncertain supplies (mainly funds) and keeping costs under control, the CSO managers are forced to articulate a vision of the enterprise as a provider of goods or services at quality and price acceptable to their *clients*—not captive beneficiaries—who will then decide to reward (or not) the value received with their scarce resources.

The integration of SV and EV permits the intensive use of cross-subsidization from product lines that create EV to those that create SV. CSOs are concerned with two semi-independent bottom lines: *mission effectiveness* and *financial sustainability*.[21] Although not completely unrelated to each other, they follow distinct logics and are calculated on different terms. In the complete absence of EV creation, the link between success in mission attainment and financial sustainability is indirect and weak. One might think of a well-funded social enterprise doing a poor job in SV creation, and vice versa. When a social enterprise integrates the creation of SV and EV effectively, the link between the bottom lines of mission effectiveness and financial sustainability becomes much stronger. If the beneficiary rewards the goods or services received, as long as the production of that good or service is well aligned with the organizational mission, mission effectiveness and financial sustainability tend to converge. In other words, the creation of the social good comes hand in hand with economic reward. A good example of this is the Asociación Chilena de Seguridad, a nonprofit that seeks to improve safe labor conditions for Chilean workers. In its operations, this CSO seeks to obtain a 6 percent profit margin. "Without this surplus," says Mario Bravo, Finance Manager, "we could not expand nor keep up with new technical developments, or attain our mission with the high standards that everyone has come to expect from us." Securing a financial surplus allows the social enterprise to invest in its institutional capacity, renew its physical assets, train personnel, or adopt time-tested practices from the private sector that could boost results—such as financial incentives linked to productivity.

Why Align SV and EV Creation in a Private Business?

Integrating a social dimension in the value proposition of a private business can help in consolidating relations with the company's stakeholders. Making the generation of SV a priority for the company grants it a societal license to operate. In a world where brand equity has replaced physical infrastructure as some companies' most valuable asset,[22] very few can afford to ignore their stakeholders' perspectives. This is particularly true for companies that operate in politically charged environments, such as those in extractive industries, among others. Through the creation of SV, companies build long-term relationships with crucial stakeholders along with brand equity.[23]

When a company succeeds in effectively integrating a dimension of SV in its core business, it aligns its legitimate self-interest with society's betterment. Consider the example of Natura, a Brazilian cosmetics company that promotes the sustainable exploitation of natural resources. In the words of Pedro Passos, operations president, "Natura intends to help the country take advantage of its biodiversity, transforming it into a source of social and economic wealth. To do that, we need to turn that cause into a tangible object." That tangible object was Ekos, a product line based on plant and vegetable oils traditionally used by some communities in the hinterlands. Ekos products were produced through cross-sector partnerships with traditional communities such as the *ribeirinhos, sertanejos, caboclos,* and other groups scattered across the national territory in extreme isolation.[24] The alliance had a remarkable impact on the living conditions of those communities, while contributing to the company's strategy of generating wealth in a socially responsible fashion and differentiating its products. In cases like this, where the product is attractive in terms of quality and price and rewarded by the market, the company will have strong price incentives to maximize the production of SV, with the benefits of its self-interested efforts spilling over to community.

In other cases, the introduction of a strong social component in the value proposition of a company can result in price premiums. The Peruvian eco-tourism initiative, Posada Amazonas (Amazon Lodge), is a case in point.[25] This social enterprise came about as the result of a joint venture between the Rainforest Expeditions (RFE) Company and the native Ese'eja community. The native community, which owned some 24,700 acres of extraordinary environmental richness received from the Peruvian government, partnered with RFE, a Peruvian company engaged in sustainable ecotourism. In this cross-sector alliance, the community contributed land and labor, while RFE provided funding and management expertise. For an

eco-tourism lodge, essential assets include access to an outstandingly rich ecosystem and qualified guides. RFE's alliance with the native community supplied both. Moreover, by assuring that the Amazon Lodge accrued those resources from the community in exclusivity, RFE erected a barrier of entry toward potential new competitors, which sustained good profit margins. The Amazon Lodge competed with six other similar facilities in Peru, and with several eco-lodges in Ecuador and Bolivia—all of them offering, generally speaking, the same product. Despite the strong competition, the competitive advantages featured by Amazon Lodge enabled it to maintain a price premium of between 5 and 40 percent above what their competitors charged. At the same time, the collaboration accomplished the community's goals of raising living standards and preventing the disintegration of the Ese'ejas. As a result of the partnership their income increased (salaries at the lodge are 38 percent higher than the traditional family income generated by hunting and agriculture) and the community became more stable. According to community member, Hernán Arrospides, "With the Amazon Lodge . . . kids don't leave after high school to go to other places . . . They used to go to Puerto Maldonado and now they don't anymore, because the contract says the company has to provide jobs for everyone." Moreover, the collaboration did away with the problem of free-riding, generating market incentives for the community to preserve the environment, which is now their source of income. As more individuals become employed in tourism-related ventures, fewer engage in activities that may harm the environment—such as unregulated hunting or fishing.

The magnet of securing price premiums through the introduction of a SV component in the company's core value proposition could have the long-term effect of attracting others to follow the example, which would expand the aggregate supply of SV. Many leading companies also point to competitive advantages in recruiting, motivating, and retaining talented employees as a result of their commitment to, and investments in, social value creating activities.[26] Let us now review the different forms in which VS and EV can be integrated.

Aligning the Creation of SV and EV in a Social Enterprise

Given that in principle free markets do not offer price incentives for the production of SV, a key question for any organization seeking to integrate a social component into its value proposition would be: which individuals or organizations can capture at least some of the value created by my social enterprise? Those are the ones that could be interested in rewarding some

of that value with their own resources. An organization that provides shelter for the homeless could not consider, on ethical or practical grounds, charging fees for their services. Others, however, might want to capture some of the value created by such organization: families that can track lost relatives and reunite with them; municipal governments that could prevent a degradation of the social climate; or companies that might be seeking volunteer opportunities for their employees.

Some organizations are working to serve marginalized populations through innovative, market-based mechanisms which seek to overcome market failures. The experience of micro-finance institutions, which was discussed above, is a case in point. At the same time, a growing number of CSOs are resorting to a tool that has proved particularly powerful in the pursuit of EV creation: cross-sector partnerships with private companies, which are "relationships entered into by two or more organizations from the business and nonprofit sectors, to achieve respective or common goals."[27] These organizations have ventured beyond the traditional pattern of philanthropy to engage in mutually beneficial arrangements.[28] For example, through cause-related marketing initiatives, some CSOs were able to leverage their brand equity as a source of income.[29] Other CSOs have become part of the value chain of some private businesses by forging integrative alliances analogous to the joint ventures that are common in the private sector.[30]

In the private sector, the level of alignment between the creation of SV and EV depends to a large extent on the integration of social enterprise with commercial strategy. Our sample cases offer a diverse pool of alternative arrangements. These choices, as well as the pros and cons of each alternative, were reviewed in Chapter 5 on organizational structure. This diversity is captured in the continuum shown in Figure 10.3, which goes from low to high levels of SV and EV integration. As the private sector has traditionally tended to see the creation of SV as unrelated to its core business, many companies have hosted their social enterprises in different entities. Others, interestingly, have chosen to internalize their social enterprises, hosting them within the umbrella of the company and having diverse degrees of integration with their commercial strategy. The maximum level of SV-EV integration is reached when a social dimension is integrated with the company's research and product development. It is at that point that the company leverages all of its considerable potential for innovation toward the creation of SV. In most organizations, the creation of SV is carried out through compensatory actions (such as minimizing the environmental footprint), carried out in a value chain separate from

Figure 10.3
Level of Alignment between SV and EV in the Private Sector
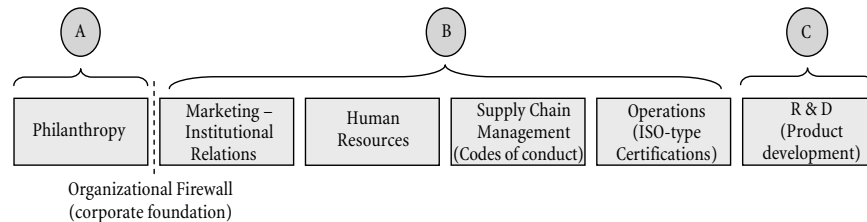
the one where EV is created. On the other hand, when the creation of SV is integrated with research and development, both SV and EV are integrated into the same value chain, or "pipeline."

Consider once again the Brazilian cosmetics company Natura. In the mid 1990s, this company decided to place its environmental and social responsibility at the core of its business strategy. This approach led later on to the development of Ekos, a product line that sought to turn Brazil's social and ecological diversity into a source of economic and social wealth, employing the traditional knowledge of the native communities and using natural resources in a sustainable fashion. Instead of simply procuring those supplies or hiring individual from those communities, the company partnered with them, so as to share the economic benefits derived from the commercialization of those products.[31]

The value proposition of the Ekos product line meshes the social and economic components very tightly. On the one hand, it removed barriers that hindered social inclusion by stimulating job creation and increasing the income of otherwise isolated and neglected communities. On the other hand, it created economic value for consumers—who were willing to pay above the cost of producing these products—as well as for the company and its community partners who enjoyed the economic rewards of their work. The success of this product line brought simultaneous gains on several fronts: consumers, company, and community. Notice that such a virtuous cycle is only possible when a private company devotes all of its creative talent—including scientific research, marketing, financial, and other skills—to the pursuit of SV creation. This sharp focus on SV creation is facilitated when the social component is at the core of the value proposition of (at least some of) its product line. That is why companies that integrate a social dimension in their research and development go beyond compensatory actions and turn SV creation into a competitive asset.

Companies that seek to bring a social dimension into their operations should start by asking themselves the following question: *How can my value chain, in each and every one of its various phases, contribute to the creation of SV?* When a social dimension is organically integrated along the company's value chain, more EV necessarily means the production of SV, as exemplified above by the Natura case.

Companies integrate their social enterprises within their value chains in various ways (see Chapter 3). In doing so, these businesses manage to strengthen their relationships with surrounding communities and suppliers; they transform their production processes and the working environment for their employees; and they integrate disadvantaged populations to their value chain in different capacities.

Key Points to Consider

We wrap up this chapter by quickly reviewing its principal ideas. Although the creation of SV and EV has traditionally been viewed as quite different, in theory as well in practice, this chapter has shown they are not as far from each other as is often thought. The process of value creation can be considered as a holistic process, which may include a social as well as an economic component. Even acknowledging the specificities of social enterprise, this integrated view could help the efforts of those who work tirelessly to strengthen their communities, both from the social and the private sectors.

There might be good moral or practical reasons why a social enterprise should depend entirely on charity. Those exceptions aside, there is a wide area in which the economic and social dimensions of value creation will reinforce each other. Some of the examples reviewed prove that it is indeed possible to craft a value proposition that creates EV as we defined it (price greater than cost, and freely rewarded by recipient), while removing barriers that hinder social inclusion, assisting those temporarily weakened or lacking a voice, and/or mitigating the undesirable side effects of economic activity—our understanding of SV.

At the same time, it is also true that the creation of synergies is by no means automatic, nor easy. Tensions and trade-offs do arise, and have to be dealt with through ad hoc mechanisms aimed at the integration of SV-EV in each of the dimensions analyzed so far in this book: leadership, strategy, organizational culture, structures and processes, human resources, funding, governance, and performance measurement.

Endowing the value proposition of a social enterprise with an economic component instills in the organization a discipline and a dynamism that

will often have virtuous effects on the delivery of social value, as long as it does not generate tensions with its mission. At the same time, embracing a social cause decisively will usually have the effect of motivating and energizing the membership of any organization, in the private as well as in the social sector. This is why some companies have chosen the route of social commitment to shake a complacent or inward-looking culture. Finally, a commitment to the community has proved to be an effective tool to build social capital, manage risks and build long-term brand equity.

Notes

1. In the last decades some scholars in the field of development economics have put into question that all economic activity leads inexorably to improved social conditions. For example, Nobel prize-winner Amartya Sen claims that global famine does not originate in supply shortages, but in inequalities built into the mechanisms for distributing food. Amartya Kumar Sen, *Poverty and Famines: An Essay on Entitlement and Deprivation* (Oxford: Clarendon Press, 1981).

2. "In SE, collective benefits are not simple induced by economic activity but are, rather, a dimension claimed by those who promote and actually undertake the activity." Jean-Louis Laville and Marthe Nyssens, "The Social Enterprise: Towards a Theoretical Socio-Economic Approach" (paper presented at the L' Impresa Sociale in Prospettiva Comparata, Trento, Italia, December 13-15, 2001).

3. J. Graham Spickett-Jones, Philip J. Kitchen, and Jon D. Reast. J., "Social Facts and Ethical Hardware: Ethics in the Value Proposition," *Journal of Communication Management* 8, no. 1 (2003).

4. Mark H. Moore, "Managing for Value: Organizational Strategy in for-Profit, Nonprofit, and Governmental Organizations," *Nonprofit and Voluntary Sector Quarterly* 29, no. 1 (2000): 194.

5. For an example of this methodology, see Adrian Payne, David Ballantyne, and Martin Christopher, "A Stakeholder Approach to Relationship Marketing Strategy," *European Journal of Marketing* 39, no. 7/8 (2005).

6. The remaining two questions (What are our results? What is our plan?) enter the realm of strategy. Gary J. Stern, *The Drucker Foundation Self-Assessment Tool: Process Guide* (San Francisco, CA: Jossey-Bass, 1998.

7. Michael E. Porter and Victor E. Millar, "How Information Gives You Competitive Advantage," *Harvard Business Review* (1985): 3.

8. Robert Tassinari, *Le rapport qualité/prix* (Paris: Les éditions d'organisation, 1985).

9. As defined here, value (economic or social) refers to the type of solution that the value proposition of a social enterprise delivers: its immediate consequences or output. We are not dealing with the long-term effects of the initiative: its impact or outcomes. In the long run, the creation of social value will always have economic consequences: for example, bringing down barriers to education will empower individuals, who will then be able to increase their income.

10. The EV created for both need not be the same. Some social enterprises might deliver heavily subsidized goods or services from which they might obtain no surplus (price equals cost). If these are freely compensated by their recipients, these products will create EV for them, but not for the organization.

11. Prahalad, C. K., and Allen Hammond, "Serving the World's Poor, Profitably." *Harvard Business Review* (September 2002).

12. Michael Chu, "Accion International: Maintaining High Performance through Time," HBS Case No. 9-304-095 (Boston, MA: Harvard Business School Publishing, 2004).

13. Intermón Oxfam, *Intermón Oxfam. Who Are We?* (Intermón Oxfam, 2005 [cited October 11 2005]); available from http://www.intermonoxfam.org /cms/HTML/espanol/56/Presentation_ingles05OK.pdf.

14. Garrett Hardin, "The Tragedy of the Commons," *Science* 162 (1968).

15. A summary of the evolution of this industry can be found in Chu, "Accion International: Maintaining High Performance through Time."

16. Moore, "Managing for Value: Organizational Strategy in for-Profit, Nonprofit, and Governmental Organizations," 195.

17. Patricia Hughes and William Luksetich, "Nonprofit Arts Organizations: Do Funding Sources Influence Spending Patterns?" *Nonprofit and Voluntary Sector Quarterly* 33, no. 2 (2004).

18. William Foster and Jeffrey Bradach, "Should Nonprofits Seek Profits?" *Harvard Business Review* (February 2005).

19. Hughes and Luksetich, "Nonprofit Arts Organizations: Do Funding Sources Influence Spending Patterns?"

20. Robin Rusch, "Do Nonprofits Have Value?" (*Interbrand*, July 29 2002 [cited April 13 2005]); available from http://www.brandchannel.com/features _effect.asp?pf_id=110.

21. Moore, "Managing for Value: Organizational Strategy in for-Profit, Nonprofit, and Governmental Organizations," 194.

22. According to Interbrand, Coca-Cola's brand reputation amounts to 96% of its market capitalization. David Grayson and Adrian Hodges, *Everybody's Business* (New York, NY: Dorling Kindersley Publishing, 2001), 32.

23. Ibid.

24. For an analysis of this alliance, see Austin et al., *Social Partnering in Latin America: Lessons Drawn from Collaborations of Businesses and Civil Society Organizations.* For more detailed information about the specifics of his experience, see the teaching case: Tania Casado and Rosa Maria Fischer, "Natura-Ekos: From the Forest to Cajamar," SEKN Case No. SKE016 (Boston, MA: Harvard Business School Publishing, 2003).

25. For more detailed information, see the teaching case: Felipe Pérez, "Posada Amazonas," SEKN Case No. SKE002 (Boston, MA: Harvard Business School Publishing, 2003).

26. James E. Austin, Gustavo Herrero and Ezequiel Reficco, "La nueva ruta: alianzas sociales estratégicas," *Harvard Business Review América Latina* (December 2004); James E. Austin and Cate Reavis, "Starbucks and Conservation International," HBS Case No. 9-303-055 (Boston: Harvard Business School Publishing, 1996); James E. Austin, Herman B. Leonard, James W. Quinn, "Timberland: Commerce and Justice," HBS Case No. 9-305-002 (Boston: Harvard Business School Publishing, 2004).

27. James Austin et al., *Social Partnering in Latin America: Lessons Drawn from Collaborations of Businesses and Civil Society Organizations*, 4.

28. James E. Austin, *The Collaboration Challenge: How Nonprofits and Businesses Succeed through Strategic Alliances*, 1st ed. (San Francisco, CA: Jossey-Bass, 2000).

29. In 2001 the consultancy Interbrand established the brand value of Habitat for Humanity International at nearly US$ 2 billion. The rationale behind valuing the CSO's brand equity was, in the words of Dennis Bender, senior vice president of communications at Habitat for Humanity International, to "establish the brand in the context of corporate America (. . . in order to) win support for our branding efforts . . ." Rusch, Do Nonprofits Have Value?

30. See Casado and Fischer, "Natura-Ekos: From the Forest to Cajamar," and Pérez, "Posada Amazonas."

31. See Casado and Fischer, "Natura-Ekos: From the Forest to Cajamar."

11

Integrative Reflections

The previous chapters have probed each of the key managerial variables that contribute to high performance in social enterprises: the integrating drivers of leadership, strategy, and culture; the implementing mechanisms in organizational structure, human resources, financing, governance, performance measurement; and the core purpose of value generation. Each chapter has provided the reader with a conceptual framework for understanding the variable under discussion, identified smart practices, set forth challenges, compared CSOs and businesses, and suggested managerial lessons. Thus the individual chapters offer, for each variable, self-contained guidance for practitioners as well as interesting areas for further research by academics. But by looking at the whole, can we glean additional insights about what it takes to be a higher-performing social enterprise?

The purpose of this final chapter is not to summarize what has already been stated in the individual chapters, but rather to revisit our two basic research questions set forth in Chapter 1. We will first look at the totality of the research to extract and highlight some additional capabilities contributing to high performance that transcend the individual managerial variables examined in the preceding chapters. After this we will reflect on the second research question comparing business-based and civic social enterprises.

Cross-Cutting Capabilities

Our first research question was: *What are the key success factors and smart practices that led these organizations to excel?* While the previous chapters identified a multitude of such practices in each of the key management areas, our integrative analysis identified six cross-cutting capabilities that stand out as important contributors to high performance:

- entrepreneurial innovation,
- capacity building,
- organizational adaptability,
- stakeholder management,

- alliance creation, and
- strategic alignment.

Entrepreneurial Innovation

A vital capability present across the organizations was their creativity in devising innovations. High-performing organizations seem to be in a continuing state of entrepreneurial innovation. Two special dimensions characterized this entrepreneurship.

- **Entrepreneurial spirit**. Driving all the innovation processes was an ever-present entrepreneurial spirit. The leaders manifested a continuing willingness to try out new approaches. They were not entrapped by their organizations' existing ways of operating and kept looking for ways to create new and better ways to achieve the mission.
- **Value creation**. The nature of the innovations varied greatly. Sometimes it resided in the type of service or how it was delivered, or the organizational form used, the relationships established, roles played, market mechanisms deployed, or core competencies leveraged. The innovations studied were clearly heterogeneous, but they all enabled the creation of significant new value. Whereas some innovations were major breakthroughs that permitted important leaps forward, many others facilitated the smaller steps important to continued improvement and vitality.

Capacity Building

The scarcity of resource confronting social enterprise efforts in Iberoamerica in terms of skills, institutions, and funding constrains the capacity of CSOs and businesses. Hence organizations have to build the capacity to mobilize resources to achieve higher performance. Three elements in that process seem most relevant to the organizations studied.

- **Competency Development and Learning.** The institutions studied appeared able not only to enhance individual capacities but also to develop those into organizational competency. The competency development process appears to be rooted in and nurtured by a strong receptivity and commitment to learn how to do things better. This fostered an organizational environment of continuous improvement. There were multiple sources of learning. In addition to formal training, a more common and basic approach was experience-based learning-by-doing. This involved

trying out things to see what worked. The initiatives that did not work well were milked for their lessons. Many of the organizations searched out smart practices by others. There was an openness to learn from others and a willingness to share their learning with others. The mutual benefits of lateral learning were recognized and proactively pursued.

- **Talent Mobilization.** The evolution of the social enterprises was accompanied by a continual strengthening of the organizations' talent pool. Professional development through the experiential learning mentioned above helped in this respect, but organizations increasingly recruited individuals with inadequate skills. Advisory and governance boards were used as mechanisms to mobilize external specialized expertise, credibility, and networks. Once the talented individuals had been brought in, they were actively engaged and retained for long periods, thereby providing access to scarce talent as well as continuity, a welcome asset in the unstable environments.

- **Enabling Structures and Systems.** These organizations created organizational structures and administrative processes that would convert individual competency into organizational capacity. The structural forms were not uniform; some companies created separate corporate foundations while others integrated social enterprise activities into existing company structures. Similarly, CSOs had diverse organizational patterns. Analogously, organizations had different mixes of funding sources that created distinct degrees of financial diversity or dependency. Thus the key is not uniformity but an appropriate structural fit with each organization's specific strategy, resource situation, and context, so as to enhance organizational capacity.

Organizational Adaptability

The contextual forces that shape the social enterprise environment in many Latin American countries tend to create a distinctive set of challenges and dynamics compared to the environments in the more developed nations of the northern hemisphere. Political shifts can be quite abrupt and radical. Economic disruptions and crises emerge frequently. Wealth levels are lower and income distribution highly skewed. Philanthropic cultural norms and limited capacity constrain resource mobilization. Institutional capabilities are underdeveloped and the human talent

pool is scarce, owing to limitations of educational systems. Thus the oper-
ating environments in many Latin American countries are characterized
by higher instability and uncertainty, constrained by acute resource limi-
tations, and complicated by culture. This does not mean that contextual
forces do not create important challenges for social enterprises operating
in more developed countries. Our analysis of the Spanish context revealed
many problems, such as changes in governmental policies creating pres-
sures on companies for environmental betterment and greater social
responsibility in the labor area and beyond; cultural constraints on social
entrepreneurship; and economic and cultural factors that impede the
mobilization of philanthropic investments. Accordingly, the high-per-
forming social enterprises in Spain were confronted by changing pressures
from a range of contextual forces shaping their operating environments,
albeit different ones from their Latin American counterparts. Such diffi-
culties can result in external or internal crises that put an organization at
great risk and test its capacity to react. One of the core capabilities that
characterizes many of the organizations studied in Iberoamerica is *adapt-
ability* to such environmental threats. This organizational capacity to
adapt appears to have four key components:

- **Adaptive leadership.** Certain abilities in the organizations' lead-
  ers appear to contribute to adaptive capacity, starting with a
  problem-solving mindset. Where others see problems, they see
  opportunities. They are able to convert the complications arising
  from the shifting contextual forces into a constructive new course
  of action for the organization. They know how to initiate trans-
  formations. Adaptability is required not only in moments of cri-
  sis but is imperative to enable an organization to evolve and move
  to higher stages of development. This demands from the leaders
  the ability to adjust their styles and roles to fit the new demands
  and needs of the organization.

- **Emergent strategy.** Adaptation is often triggered by the necessity
  of dealing with the demands of a specific circumstance or inci-
  dent. Rather than simply putting out unexpected fires, the flexi-
  ble organization is able to use that situation as an input into its
  strategy formulation. This places a premium on being able to
  develop emergent strategy, using the dynamics of new contextual
  circumstances as a basis for adjusting the organization's strategic
  thinking. That rethinking is then used to adjust the organization's
  longer strategic planning.

- **Stabilizing values.** Making major strategic shifts such as chang-
ing the core services of the organization or traditional approaches
and relationships can be extremely stressful and disruptive to an
organization. Such fundamental transformations often simply
exceed the institution's capacity for change. It appears that organ-
izations having strong and widely shared values that elicit high
commitment possess a stabilizing anchor that enables them to
undergo significant change. A key to this, however, appears to be
linking the adaptation to those values. The organization's core
principles provide guidance for deciding what and how to adapt.
Compatibility of the adaptive change with the values preserves
commitment.

- **Flexible structure and systems.** Adapting often begins with indi-
vidual actions, but the highly adaptive organizations developed
structures and systems that enable them to adjust whenever they
need to. They appear to have an operating flexibility that facili-
tates change. As this adaptive capacity becomes more embedded
not only does the organization's ability to react effectively to envi-
ronmental shifts increase, but its ability to read the environment,
anticipate the need for change, and take proactive steps also
increases.

Stakeholder Management
The performance of social enterprises depends on the actions of a multi-
tude of groups that affect or are affected by the organizations. Managing
the accompanying relationships and dynamics of these various interest
groups is of considerable importance to effective social enterprise man-
agement. Three dimensions of this critical function stood out in our cases.

- **Identification.** The high-performing organizations took a
broadly inclusive view of stakeholders. They identified groups or
individuals that directly or indirectly could affect or be affected
by the social enterprise's actions. These stakeholders were both
external and internal to the organization. The organizations were
able to create stakeholder maps that revealed who needed to be
monitored and attended to and what were the actual or potential
linkages among stakeholders.

- **Understanding.** Beyond identifying the stakeholders, the organi-
zations invested in getting to know their needs, expectations,

aspirations, resources, perceptions, and attitudes toward the organization and its activities. This knowledge allowed the managers to tailor plans and actions that would best fit each group.

- **Engagement.** The challenge is how to best engage each stakeholder so that his or her respective competencies or assets can be most effectively mobilized to fulfill the organization's mission, while simultaneously meeting the various stakeholders' needs. The deeper the engagement, the greater the potential value creation. It is important that all stakeholders are seen as both contributors and recipients in the value proposition.

Alliance Creation

A common characteristic of the organizations studied was alliances with other entities. This is related to the previous four phenomena in that alliances are entrepreneurial undertakings that build additional capacity and can serve as adaptive mechanisms in contextual exigencies, as well as deepen relationships with important stakeholders. The organizations have entered into a wide range of collaborations: businesses with CSOs or other businesses; CSOs with other CSOs; CSOs and businesses with governments, whether separately or all together. Alliances are not panaceas, yet there is a prevailing recognition among these leading firms of the value and even the necessity of collaboration as an integral, but certainly not exclusive, component of social enterprise undertakings. This is consistent with, and additional confirmation of, the observation emerging from SEKN's previous research and book studying 24 strategic alliances between businesses and CSOs in Latin America.[1] Four aspects merit commentary.

- **Multiple benefits.** The alliances contributed to enhanced performance by enabling one or more of the following: greater scale, higher efficiency, broader scope, or deeper penetration. The sharing of resources enabled partners to decrease risks and costs of going it alone. Partner engagement often seemed to contribute to a longer term perspective, a more refined focus of the mission, and greater congruency with the organizations' strategic priorities.

- **Complementarity.** Value creation seemed greater when the collaboration mobilized complementary resources from each partner. When a partner contributed an asset that was vital to the value process which the other partner did not have, then the value added by the collaboration was significantly increased. And when

that asset was one of the partnering organization's core capabilities, even greater leverage for value generation was obtained.

- **Relationships.** The effectiveness of the alliance is significantly dependent on the quality of the relationship between the partners. Serious barriers need to be overcome in creating an alliance, including differences in organizational cultures, miscommunication and low transparency, stereotypes and mistrust, among others. Personal connections and chemistry were important to overcoming these obstacles and to creating constructive relationship dynamics. Professionalizing and institutionalizing the management of the alliance also created stronger partnerships. The alliance-building process required considerable effort and time.

- **Virtuous circle.** Collaborations improved the capacity to respond to community needs, which improved relations with these stakeholders. That in turn increased credibility and power to mobilize additional resources internally and externally, thereby enabling additional and enriched social enterprise. This reinforcing value chain, when working at its best, permits the undertaking to continually raise the performance bar. This high level of alliance performance comes only with constant investment in the relationship and learning how to continually strengthen it.

Strategic Alignment

Our research probed a broad set of core management areas, and it is evident from the presentations in each chapter that every one of those areas contributes importantly to performance. However, our research also detected across the organizations that an even more powerful contributor appeared to be the nature of the relationship among those components. Greater alignment of all the pieces produces greater organizational coherence, which contributes to more effective deployment of resources. Three aspects of alignment stood out.

- **Integrating drivers.** Leadership, strategy, and organizational culture appeared to play particularly important roles in achieving alignment. In a fundamental sense, leaders are the crafters and keepers of organizational coherence. Their task is to see the whole and ensure that the pieces are aligned. Strategy is the main managerial mechanism providing integrating guidance to the whole organization. It is a shared reference point for all the actors across

an organization. The culture of an organization is the common shaper of behavior. The values and norms embedded in this culture influence in fundamental ways the implementation of the strategy. Social enterprises are value-based undertakings, so culture is particularly important as a guiding and unifying force. Leadership, strategy, and culture are particularly critical in ensuring an effective fit with the ever changing contextual forces.

- **Organizational linkages.** Whereas the integrating drivers contribute fundamentally to alignment, they are not sufficient. One must also address more specifically the operating functional areas. The organizations that appear to have greater alignment utilize structures or processes that enable or even force the various functional areas to interact, coordinate, and combine efforts. In the best of circumstances, these efforts capture all the synergies between the operating parts so that they are contributing optimally as a whole to the core purpose. The analogy is to internal plumbing that connects the pieces so that they cannot remain isolated. The potential benefits of these linkages will be realized and greatly enhanced if there is an alignment between individual and organizational competencies.

- **Value-creating synergies.** The core purpose of social enterprise is to produce societal betterment. Generating social value is the central goal to which all else must be aligned, as was depicted in the Mapping Framework presented in Chapter 1. But we have also highlighted, particularly in Chapter 10, the possible benefits from achieving alignment between social value and economic value for both CSOs and business-based social enterprise. The main premise in this alignment is that there appear to be important potential synergies between economic and social value creation. One may often help produce the other. If such potential synergies are captured, then the sustainability of the social enterprise is enhanced. Conversely, when the two are in conflict or misaligned, the strength of the undertaking and even its viability may be diminished.

Comparative Perspective: The Emergence of Convergence

The foregoing six cross-cutting capabilities offer important additional understanding of high-performing social enterprises. The second part of our learning agenda was to see what insights could be gleaned from comparing the business-based and civil social enterprises. The second research

question set forth in Chapter 1 was: *What differences and similarities exist between social enterprise practices of CSOs and businesses?*

Traditionally, CSOs and businesses have been seen as very different types of organizations, operating in distinct realms with divergent purposes. Throughout the book we have identified and analyzed the similarities and differences between CSO and business-based social enterprise in each of the key management areas. While many differences exist, looking across all these areas our research suggests that the points of convergence are multiple and growing, including those indicated in the cross-cutting capabilities of entrepreneurial innovation, capacity building, organizational adaptability, stakeholder management, alliance creation, and strategic alignment. The corporation's role as a greater generator of social value as well as economic value is being increasingly recognized and amplified. And more often than not, that role involves collaborations with CSOs. It is clear from our research that the two worlds of businesses and CSOs have much in common in the realm of social enterprise. Importantly, this signals that the opportunities for learning from one another are abundant.

Thus practitioners and researchers would be smart to take a more encompassing and integrative view so as to capture the intellectual and practice synergies existing in the common ground shared by CSOs and businesses in their pursuit of seeking success in social enterprise. There are *differences in kind* that arise from underlying factors that fundamentally distinguish CSOs from business-based social enterprises, and *differences in degree* due to factors that will not be enduring constraints on the evolution of the practices. In both instances, however, we see a movement toward convergence. We will now explore these areas of convergence and the possible learning opportunities.

- **Purpose and means.** CSOs have a sole purpose of generating social value, while business-based social enterprises have mixed purposes because the social value activities are embedded within for-profit organizations. Consequently, *social mission centrality* will be greater in CSOs than in businesses. However, we also observe in businesses that social betterment is increasingly becoming a part of their missions and value systems. Creating social value along with economic value is emerging as part of business purpose and model because of their synergistic relationship. Thus, in terms of purpose, business seems to be moving closer to CSO. At the same time, we see earned income activities rising in importance within CSOs, which makes them more similar to business-based social enterprise. The driving *motivations*

for social enterprise engagement by businesses appear to be a mixture of altruism and utilitarianism, with a portfolio of activities that correspond to each. This also increasingly holds true for CSOs. Thus, while differences related to purpose and means are likely to persist, the areas of overlap are growing. How to formulate purpose and mission statements is an area for mutual learning between CSO and business-based social enterprises, as is how to use economic value creation as a means of enabling social value creation.

- **Accountability.** Businesses are accountable to their shareholders and must demonstrate the relevance of social investments to their economic interests. CSOs do not have owners, but increasingly donors are demanding greater accountability for the results produced by the funds provided. There also appears to be a trend for businesses to define their stakeholders as broader than just shareholders, so that accountability begins to encompass groups similar to those of CSOs. Thus managing stakeholder relationships, including accountability, is becoming a shared learning terrain.

- **Resource mobilization.** The financial and human resources of companies and CSOs are different qualitatively and quantitatively. Their funding mechanisms will be different, with CSOs relying heavily on the external philanthropic market with some earned income, and the businesses drawing predominantly on internal funds to finance the social enterprise activities. Convergence is growing, however, as CSOs earn more of their revenues and businesses increasingly tap outside resources. Many CSOs make heavy use of outside volunteers as an economical *means* of helping deliver their services. Many companies in Iberomerica are creating opportunities for their employees to do volunteer work, often with collaborating CSOs, with the volunteering being an *end* in and of itself as a source of employee satisfaction and deepening commitment to the enterprise. Some CSOs also see volunteer service as intrinsically valuable in and of itself. Thus, while different in some aspects, volunteer motivation and management are relevant to both

- **Problem diagnosis and planning.** Businesses are noted for their skills in analyzing problems and systematically planning actions. Paradoxically, many CSOs studied appeared to analyze and plan better than many of the businesses. This appears attributable to

differences in *knowledge level* or *skill application.* Some CSOs have greater technical knowledge and familiarity with the social sector problems and are able to diagnose more thoroughly. There are rich opportunities for business to learn from CSO in this aspect. Some businesses initially think of the social investments as ancillary or marginal activities that are separate in kind and purpose from their business activities. Consequently, they either may not invest the time or may not recognize the applicability of the business practices to social project analysis. Those businesses that have applied their skills effectively appear to do so (a) when someone in their organization has technical expertise in the social problem area, or (b) the social activity is closely related to the core business activity, or (c) there is an operating approach that treats social programs as equivalent to any other company investment.

• **Process formality.** In contrast to the foregoing observation, our study reveals that companies generally have more formality in the procedures and management of their social activities than do many CSOs. This is a manifestation of the business organization culture and standard operating procedures that spill over into the social arena, even if it is not always fully applied as mentioned above. The CSOs' organizational culture generally gives priority to social commitment and conviction and takes a less formal approach to management processes, often to the detriment of efficiency. Yet procedural formalization can be learned, and the need to make the most out of increasingly scarce resources is leading CSOs to strengthen this dimension. In fact, those CSOs that have achieved highly formalized management processes have often been stimulated by the demands of donors or marketplace competition. CSOs may be able to learn much about managerial process and system formalization from businesses.

• **Action orientation.** CSOs have tended to be more proactive and companies more reactive to social problems, at least in their origins. We have observed, however, that companies increasingly migrate from reactive risk mitigation or petitioner appeals into proactive strategies as they engage more deeply in the social arena and move that dimension more centrally into their core strategy. Companies have turned proactive when the social enterprise activity emerges directly from their business model or when leaders' values act as a catalyst.

- **Focus.** Achieving strategic focus has been a commonality of the high-performing CSO and business-based social enterprise. To accomplish this, however, the organizations have had to overcome somewhat different challenges or resist certain risks. CSOs generally start sharply focused on resolving a specific social need but then have to resist the pressures of *mission drift or diversion* arising from donor demands, earned income opportunities, or the desire to add new activities to meet the broad necessities of their client groups. Businesses often begin their social investments in response to an acute immediate problem or to heterogeneous requests from petitioners. Their challenge is to achieve *mission clarity* and *compatibility* of social value generation with the rest of the company's economic value activities.

- **Measurement.** Performance measurement is problematical for both CSO and business-based social enterprise because of the inherent complexities of assessing social phenomena, determining causality, and incorporating long-term dimensions. Nonetheless, businesses seem to be lagging behind CSOs on this dimension. Whereas CSOs often have had to pay close attention to performance measurement because of the reporting requirements of their donors, companies generally do not have such close external scrutiny for their social investment activities. Some companies may not see social activities as being fully central to their operations and thereby do not make the same rigorous assessment of return on social investment as they do for economic investment. Another reason may be that the firms often consider the social activities as intrinsically good and so they do not require impact assessment. But smart practice recognizes that social value generation, like economic value generation, merits performance measurement because scarce resources are being deployed and optimum use must be made of them. As the leading firms move closer to aligning their economic and social value generation strategies, it is likely that performance measurement systems will improve as will their integration into the management processes. The performance area emerges as one where joint efforts by businesses and CSOs to learn how to tackle this common and complex problem would be quite desirable.

It is clear from the above comparative analysis that while there are important differences between CSO and business-based social enterprise,

there are many similarities and clear movements toward convergence. Figure 11.1 below summarizes some of the possible mutual learning opportunities between CSOs and businesses.

Final Reflections

While one must be careful in making generalizations from our limited and selective sample, it does seem evident that high performance stems from the combination of smart practices in the multiple dimensions of social enterprise: leadership, strategy, culture, organizational structure, human resources, financing, governance, and performance measurement. This book has revealed intelligent practices by both businesses and CSOs and provided analytical frameworks for analyzing each of these dimensions. It has also identified the cross-cutting capabilities of entrepreneurial innovation, capacity building, organizational adaptability, stakeholder management, alliance creation, and strategic alignment as important contributors to performance. It is our hope that the book will stimulate additional research that will amplify and deepen our understanding of these key determinants of social enterprise success by CSOs and companies that we have postulated in our findings. Our analyses and lessons offered in each

Figure 11.1
Mutal Learning Opportunities

BUSINESS

Business learning from CSO
• Creation of social value
• Problem diagnosis and planning
• Action orientation
• Measurement

CSO learning from business
• Creation of economic value
• Process formality

Business and CSO learning from each other
• Purpose   • Resource mobilization
• Accountability   • Focus

CIVIL SOCIETY ORGANIZATIONS
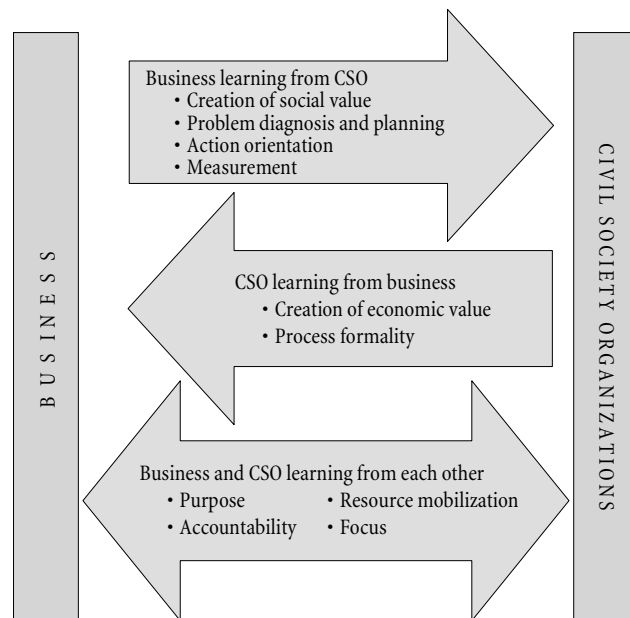
chapter should be considered by fellow academics as initial openings of avenues for further exploration. While our research has shed important new light on social enterprise in Iberoamerica, more experiences of additional nonprofit and business entities need to be examined to gain further insights.

It is clear from our analyses that many of the ingredients that contribute to high performance in other contexts also are applicable in Iberoamerica. Yet our research revealed that the relatively volatile economic, political, and social nature of Latin American environments and the accompanying resource scarcity and institutional underdevelopment created specific demands and responses in the form of some intelligent practices. Further research on the relative significance of contextual forces and how to deal with them would be welcome.

Our research has made a pioneering effort to engage in comparative analysis of CSO and business-based social enterprise. As such, it can be seen as an initial contribution toward developing a convergence theory for social enterprise grounded in field-based research. We hope that others will join in this task of theory construction, both at the conceptual level and at the field research level.

We end by expressing our fervent hope that this book will strengthen the practice of CSO and business leaders and foster cross-fertilization among them, thereby advancing our collective pursuit of social betterment through excellence in social enterprise.

Note

1. Austin et al., *Social Partnering in Latin America: Lessons Drawn from Collaborations of Businesses and Civil Society Organizations.*

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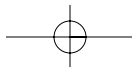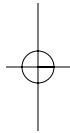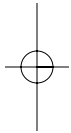
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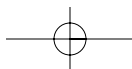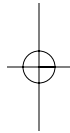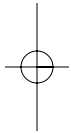
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