

# Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries

Case Study: Florence, Japan

The Japan Research Institute

Office of the Multilateral  
Investment Fund

TECHNICAL  
NOTE N°  
IDB-TN-1217

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October 2016



Cataloging-in-Publication data provided by the  
Inter-American Development Bank  
Felipe Herrera Library  
Nihon Sōgō Kenkyūjo.

Study of social entrepreneurship and innovation ecosystems in South East and East Asian countries: case study: Florence, Japan / The Japan Research Institute.

p. cm. — (IDB Technical Note ; 1217)

1. Social entrepreneurship-Japan. 2. Technological innovations-Social aspects-Japan.

I. Inter-American Development Bank. Office of the Multilateral Investment Fund. II. Title.

III. Series.

IDB-TN-1217

JEL Codes: A130

Keywords: Social enterprise, Social entrepreneurship, Social innovation, Social business, Social impact, Impact investment, Social entrepreneur

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## Acknowledgements

The authors **Fumi Sugeno, Tamako Watanabe** and **Akihisa Yahata** at The Japan Research Institute would like to acknowledge the following individuals for their contribution to this study, through participating in personal interviews, providing data and making comments on draft versions of this report. (In an alphabetical order)

- Junko Fujita, PR Manager of Florence
- Tomohiro Hamakawa, Co-Founder of Earth Company
- Takuya Okamoto, CEO of Social Venture Partners (SVP) Tokyo

## 1. Introduction

<b>Name: Florence</b>	
Description	An innovator of new business models that address child-care related social issues. Started Japan's first home-based care for sick children, small-scale nurseries, and nurseries catering to disabled children.
Founded	2004 (Tokyo, Japan)
Legal format	Not for Profit Organization
Num. employees/volunteers	344 (including part-time, as of September 2015)
Geographical reach	Tokyo, Chiba, Kanagawa and Saitama prefectures, Japan
Certifications/ awards	Winner of Niikei Social Initiative Awards (2013) and many others
<b>Social innovation variables</b>	
1. Innovation type	Japan's first home-based care for sick children, small-scale nursery school model and nursery school and home-based child care for children with disabilities.
2. Social impact	(a) Care service for sick children: Services to over 4,000 parents. Replicated by another nonprofit organization. (b) Small-scale nurseries: Operates 14 nurseries. Based on its model, the government passed a new law that certified 1,655 small-scale nurseries.
3. Financial sustainability	Annual revenue of USD 8.63 million in 2014 <sup>1</sup>
4. Key partners and supporters	Established associations with other organizations that provide care for sick children and small-scale nurseries
5. Scalability and replicability	(a) Care service for sick children: Proven to be scalable and replicable especially in big cities, though the exact business model needs to be adjusted according to the local context. (b) Small-scale nurseries: It is highly replicable; however, the government needs to shoulder the extra finance to cover the cost of childcare and nursery school teachers.
References	<a href="http://www.florence.or.jp">www.florence.or.jp</a>

<sup>1</sup> Unless otherwise stated, the exchange rate of JPY100=USD\$1 is applied throughout this report and all the years refer to fiscal years (from April 1st to March 31st in the following year)



(Photo by Florence)

## 2. Local Social Issue and the Challenge

The vast majority of working parents in Japan have no other choice but to send their children to daycare or nurseries. Unlike the western countries, no affordable and reliable babysitters exist due to the country's tight immigration control; only 2% of the Japanese working parents use babysitters compared to 41% in the U.S. and 17% in France.<sup>2</sup> Nevertheless, due to a severe lack of nurseries that stems from deep structural issues, a large number of working parents, especially mothers, are forced to give up the opportunity of continuing or returning to work. As of 2015, a total of 23,167 children ended up on wait lists and could not enter nurseries.

Even if they become lucky enough to be able to send their children to nurseries, working parents face many other difficulties. The biggest difficulty they face is that Japanese nurseries do not accept children who have a fever over 99.5 degrees Fahrenheit (37.5 Celsius) or are in their recovery days from infectious diseases. There are hardly enough facilities providing care for sick children to cater to those who aren't temporarily accepted: the number of facilities providing care for sick children is only about 3% of the total number of nurseries.<sup>3</sup> Thus, every time children become sick, working parents - often mothers - are forced to take days off from work since teleworking is still not widely introduced by Japanese corporations. When they have to take leave so often, women feel sorry for their colleagues and superiors given the Japanese corporate culture. This is the primary reason why working mothers with young children choose to (or practically are forced to) leave their workplaces.

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<sup>2</sup> <http://www.nwec.jp/jp/publish/report/page16.html> [Accessed 4 February 2016](in Japanese)

<sup>3</sup> <http://www.mhlw.go.jp/shingi/2009/09/dl/s0930-9b.pdf> [Accessed 4 February 2016] (in Japanese)

### 3. Solution and Social Impact

Florence's solution to the lack of sick childcare facilities involved starting Japan's first home-based care service for ill children. Florence sends childcare staff to households to take care of sick children while parents are at work. Under the Florence business model, parents pay a monthly membership fee regardless of actual usage of services that month. The number of Florence members grew from 38 in its founding year 2004 to 4,006 in 2014. Florence has been supporting working parents, especially mothers, to continue their work by providing them with quality childcare when their children become sick.

A feedback from a Florence member describes the Florence's impact on working mothers.

*"I went back to work when my daughter was 7 months old. For about 6 months, my daughter got frequently sick... The first time when I used Florence, I found it very hard to go to work by leaving my crying daughter behind. When I got home, I was so relieved to see my daughter playing happily with the rescue staff. Now I trust Florence 100% that they will take good care of my daughter... When my daughter was often sick, I used to question myself whether my work was worth doing... Now, I am glad that I did not give up that time. Without Florence, my daughter and I could not have gone through those six months and I would not be working now."* [Voices from the members]

From the beginning, Florence received media attention as it shed light on the issue of sick childcare for the first time in Japan. Florence's story even became a comic book, which then became a TV drama. Florence has not only contributed to raising public awareness for issues around sick childcare but also became a role model for Japan's social enterprises.

Once solidifying its business in care for sick children, Florence moved on to taking on a bigger challenge: the severe lack of nurseries. Until 2012, the government only recognized and subsidized nurseries with more than 20 children enrolled; however, it was not easy to secure large spaces to accommodate many children especially in big cities. On the other hand, nurseries with less than 20 children were not subsidized so that they had to collect higher fees from parents to cover operational costs, such as salaries for teachers and staff. Many young parents could not afford such fees and gave up sending their children to those nurseries.

In order to overcome the challenges, Florence utilized vacant apartment rooms available in city centers to start small-scale nurseries for groups of around 10 children under the age of three. By proving the effectiveness of this new model, Florence persuaded the government to pass a new law certifying and subsidizing such small-scale nurseries with less than 20 children enrolled. As a result, 1,655 (competitors!) have been certified to date. Florence currently provides daycare to 159 children in its 14 small-scale nurseries, directly delivering impact to those parents. However, the indirect impact of Florence through the passing of the new regulation has a much wider reach of thousands of parents and more to come. .

## 4. The Social Entrepreneur

**Figure 1 Mr. Hiroki Komazaki, the founder of Florence**



(Photo by Florence)

Mr. Hiroki Komazaki, the founder of Florence, is one of the first social entrepreneurs to be featured by the Japanese media when the concept of social entrepreneurship itself was originally introduced to the country in the early 2000's. Born in 1979, he grew up in a housing complex in the old town of Tokyo where the cultural norm was for neighbors and community members to help each other on a daily basis. He recalls that a woman living in the same housing complex often took care of Komazaki when his mother was busy.

During his college days, Komazaki ran a successful IT venture with his classmates in the beginning of the 2000's. However, before graduation, he came to realize that his ultimate goal in life was to create social change. He then learned that in the U.S. many nonprofits endeavor to solve social issues by running profitable social businesses. He was shocked by this trend as it stood in stark contrast to the many Japanese nonprofits managed by volunteers rather than professionals. He decided to leave the IT venture and start a nonprofit with a social business. In search of the social issue to focus on, he remembered what his mother, who worked as a

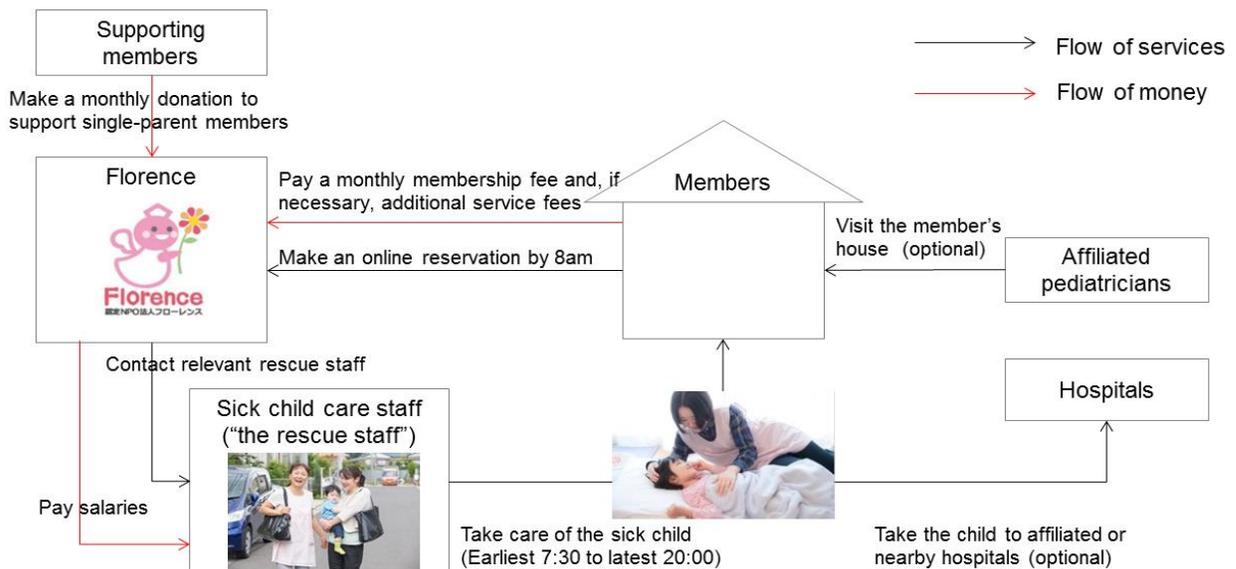
baby sitter, told him about her client: Her client was fired from work because she took a whole week off when one of her twin babies caught a cold and passed it on to the other one. This led him to develop his idea of providing care for sick children that later became Florence’s core business.

## 5. Business Model

The models of Florence’s two core business (Care Service for Sick Children and Small Scale Nursery) are described as below.

### 5.1 Core Business 1: Care Service for Sick Children

**Figure 2 Business Model of Care Service for Sick Children**



#### 5.1.1 The model's main characteristics

##### (a) Home-based

Instead of having parents bring their children to a specific facility, Florence sends its “rescue staff” to households to take care of sick children while parents are at work. Compared with the conventional facility-based model, this model requires less initial capital investment, while bringing convenience to parents and reducing stress for children.

### **(b) Robust, steady cash flow**

Florence secures a stable economic base through its payment system in which parents pay a monthly membership fee regardless of actual usage of services. In fact, parents use the service only 1.7 times a year on average. For working parents, becoming a member of Florence's sick childcare program is equivalent to purchasing insurance. Thus, even if members do not actually use Florence's service, they benefit from having the safety net to access service whenever necessary. The rationale for Florence to adopt this system derives from issues with the other models. First, the challenge with the pay-as-you-go model adopted by other service providers is the high seasonal cash flow volatility; the number of sick children increases sharply during the winter. Second, the existing sick childcare facilities, largely relying on government subsidies, charge their customers a very low fee (about USD 20 for a full-day service), equivalent to about 10% of private babysitting services. The Florence system avoids these two issues by stabilizing cash flow through membership fees and ensuring financial independence through competitive price structures.

### **(c) Professionally trained staff**

While Florence prefers recruiting certified nursery personnel, kindergarten teachers, and babysitters, the social business also considers women who have a minimum of seven years of child raising experience or one year of professional childcare experience. Florence trains its rescue staff regularly. While the head office is fully in charge of customer communication, the branch offices are staffed by certified nurses to answer any questions the rescue staff may have. Given this support structure, on-the-job accidents, such as child deaths and injuries, have not been observed to date.

### **(d) 100% service provision rate to reservations made before 8am**

In cases where a child's fever is suddenly discovered, working parents face difficulties securing care for sick children as such facilities become full very quickly. By carefully controlling the demand (number of members) and supply (rescue staff), Florence guarantees its service to be provided for all reservations made before 8am on the day of required service. Also, it developed a smartphone-accessible online system through which members can easily make reservations and receive information such as mid-day reports by the rescue staff.

### (e) Home visits by the affiliated doctors

Florence's affiliated doctors visit members' houses for free. Doctors conduct tests for flu and other diseases as well as issue prescriptions and medical certificates, which are necessary for children to go back to nurseries.

### (f) Extra support from another rescue staffer

If a member is worried about leaving her/his child alone with a rescue staffer, another rescue staffer can be arranged to visit the member's house and take care of the child together for about two hours. In this way, Florence mitigates the risk of child abuse.

### 5.1.2 Fee structure

Florence has developed two fee structures to cater to varying levels of purchasing power" a basic fee structure and a more affordable fee structure for single parents and caregivers of children with learning disabilities. The latter is financially supported by donations from Florence members.

**Table 1 Fees for Care Service for Sick Children**

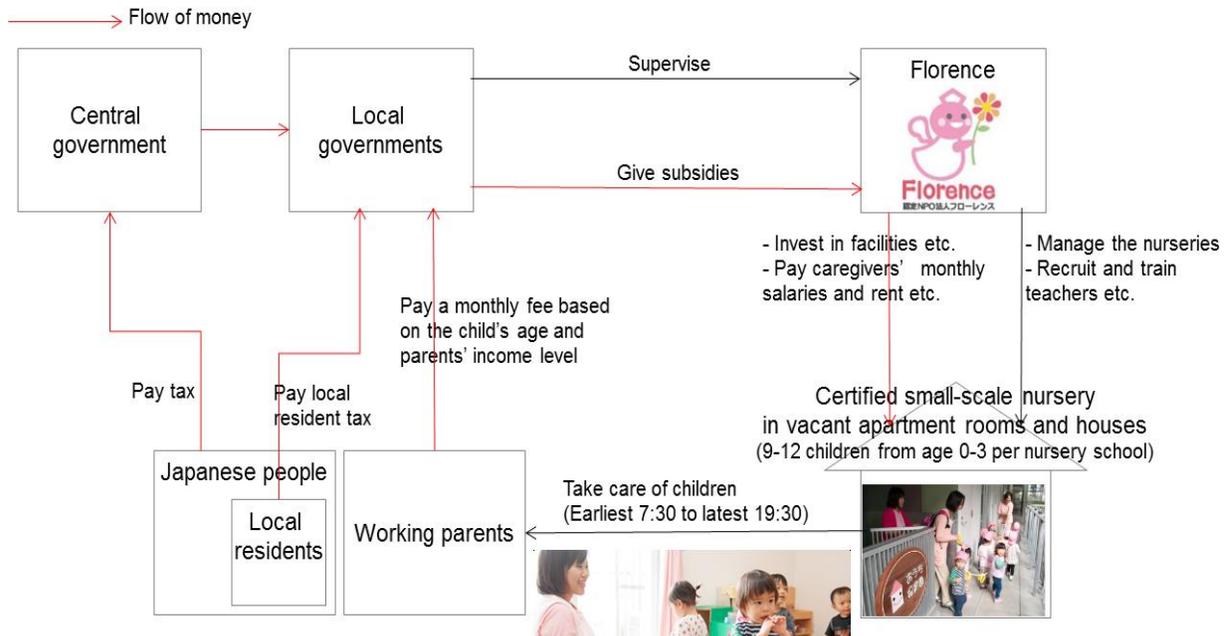
	Basic plan	Plan for single parents
One-time registration fee for initial year	USD 200	None
Monthly membership fee	Average USD 68 - Determined based on usage frequency. - Pay even if a member does not use the service at all. - Includes the fee for using the service for one time per month	USD 10
Service fee	USD 20/hour	USD 10/hour
Renewal fee	USD 100 (yearly)	None

### 5.1.3 Target beneficiaries

Florence mainly targets working parents with children under 12 years old in the Greater Tokyo Metropolitan area.

## 5.2 Core Business 2: Small-scale Nurseries

Figure 3 Business Model of Care Service for Small-scale Nurseries



### 5.2.1 The model's main characteristics

#### (a) Utilizing vacant rooms

With a high population density, large cities in Japan are the most affected by the shortage of nurseries. Despite such high demand, local governments face great difficulty in securing land for building nurseries. Florence's solution lies in utilizing vacant apartment rooms and houses, which are abundant in big cities. In this way, the initial facility and land investment costs are much lower than the conventional, greenfield nurseries. Also, once the local supply of nurseries catches up with demand, small-scale nurseries can be easily shut down and reconverted to residential or office space.

#### (b) Home-like child care

With a small number of children, nursery staff can pay closer attention to each child. Located in an apartment room or a house, these nurseries can provide children with a comfortable environment.

### (c) Subsidized model

Running a nursery is a labor- and cost-intensive business. Therefore, in order to be financially sustainable, nurseries need to rely on government subsidies to charge affordable prices for quality childcare. Similar to regular certified nurseries, the certified small-scale nurseries have three income sources: central government subsidy, local government subsidy and a monthly fee paid by caregivers.

#### 5.2.2 Fee structure

As per the regulation, local governments set standard monthly rates based on the children's age and the parents' income level.

#### 5.2.3 Target beneficiaries

The target beneficiaries of Florence's small-scale nurseries are families with working parents and 0-3 year old children.

### 5.3 Other Businesses

Florence currently manages six other business lines, apart from the care service for sick children and small-scale nurseries. Below is a summary of descriptions of the other businesses.

**Table 2 Florence's Other Businesses**

<b>Business line</b>	<b>Description</b>
Community building	Parents' isolation from society can lead to child abuse and neglect. Florence runs a community center in a high-rise apartment to build a local community for sharing child-raising responsibilities.
Work-life balance consulting	The Japanese work ethic and culture of long working hours is the root cause of the difficulties in balancing professional and family life. Florence experiments with new work styles in its own organization, posts articles on its blog and provides consulting services.
Disaster reconstruction	Florence managed two indoor parks in Fukushima Prefecture for the children who are unable to play outside due to concerns of nuclear radioactivity. It also provided junior and senior high school students with Benesse Corporation's (Japan's largest education company) correspondence courses for free. Both projects ended in 2015.
Advocacy	Florence proposes policy recommendations as a member of the government's advisory bodies. It also raises public awareness through the media.
Child care for children with	Due to the severe lack of childcare services, only 5% of mothers of children with disabilities have full-time jobs while the figure is 34% for mothers with

disabilities	healthy children. Florence runs Japan’s first nursery school which provides full-day medical care for children with disabilities. It also started home-based medical care for children with disabilities from age 1 to 6.
Babies’ adoption support (in its business preparation phase)	In Japan, every other week one newborn dies due to abandonment. Parents abandon their babies in places like parks and beaches. Florence plans to provide women facing unexpected pregnancies with counseling via Social Networking Service (SNS). It also trains, selects, and supports foster parents for such babies..

## 6. Social and Financial Performance

### 6.1 Social Impact Performance

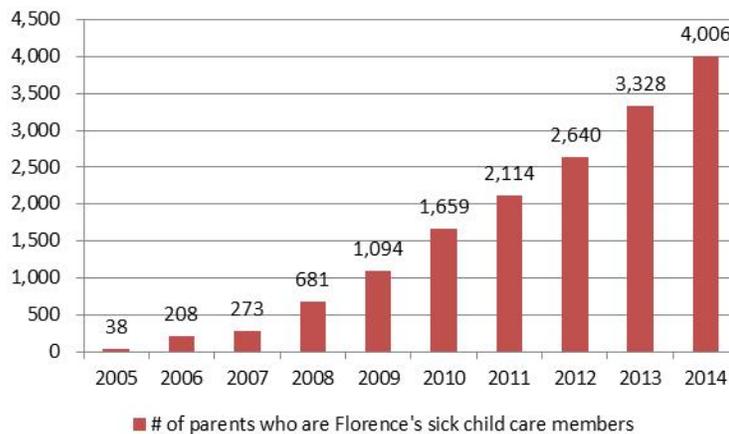
#### 6.1.1 Social impact achieved

The section below describes Florence’s achievements towards its long-term goal of solving social issues that hinder parents and children to fully realize their potentials.

##### (a) Care service for sick children

**Direct beneficiaries:** As of 2014, 4,006 working parents are registered members of Florence’s sick childcare service. The number of membership has increased by 105 times since 2005 as shown in the graph below. Since the beginning, Florence has provided over 25,000 service-visits to its members. In 2014, the Florence rescue staff took care of the members’ children 6,803 times, +3% over the previous year.

**Figure 4 The trend of Florence’s sick childcare members (2005-2014)**



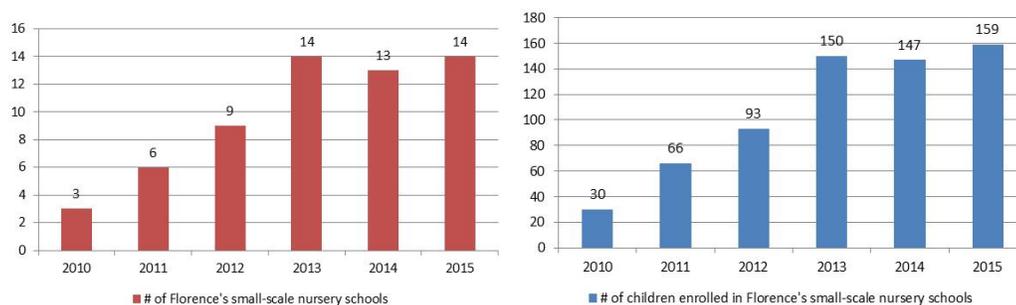
**Scale:** Florence has been expanding its impact on the country’s sick childcare problem by the following ways.

- **Replication:** After five years of operation, Florence’s business model was replicated in Osaka, a prefecture with the second largest population in Japan, by a nonprofit started by Ms. Aki Kou. Florence shared its know-how and data with Kou by inviting her to work at Florence in 2008. Even after she left Florence to launch her own organization, Nobel, in 2009, the Florence management team regularly gave her advice. As of 2014, Nobel has 816 members, providing 2,360 service-visits to date and 860 service-visits in 2014 alone. Its annual revenue in 2014 reached USD 558,000. Kou serves as a member of the Osaka City Government’s Equal Participation Committee and plays a key role in promoting women’s participation in the workforce in the greater Osaka area.
- **Online certification:** In order to increase specialists in services for sick children and share the knowledge with a larger audience, Komazaki established the “Japan Sick Childcare Association” together with Nobel’s Kou and others in 2012. In Japan, there are three certifications for sick child care professionals, all issued by private associations. While the other two certifications are only for certified nursery school teachers and experienced facility-based sick-child care staff, the Association’s certification enables anyone above 18 years who has completed an online course and 24-hour practical training to be a “sick child care specialist”. The Association’s main activities are: (i) raising awareness by publishing books about sick-child care; (ii) issuing certification of sick-child care specialists; (iii) delivering training on sick-child care; and (iv) providing information on sick-child care jobs. The Association also aims to promote this profession to people with limited access to employment opportunities, such as housewives and rural residents.

### **(b) Small-scale nurseries**

**Direct beneficiaries:** As of 2014, 159 children under 3 years old in Tokyo and Sendai, the largest city in the North-East region with its population of over a million, attend Florence’s small-scale nurseries. The graph below shows how the number of children enrolled in Florence’s small-scale nurseries increased in the first few years. Both the number of nurseries and children enrolled decreased in 2014. This is because Florence closed two nurseries while opening only one new nursery in 2014. Florence is now preparing to open three nurseries in 2016.

**Figure 5 The trend of number of schools and children enrolled in Florence’s small-scale nurseries (2010-2015)**



**Scale:** Even with its rapid growth, Florence’s small-scale nurseries support less than 200 households. In July 2012, Florence persuaded the government to develop a new law on small-scale nurseries based on the Florence’s model. As a result, 1,655 small-scale nurseries have been certified as of April 2015. Subsequently, Komazaki established the National Small-Scale Nursery Association to support new nursery development, train caregivers and share business know-how among stakeholders.

**(c) Other social businesses**

**Table 3 Social Impact of Other Businesses**

Business line	Beneficiaries
Community building	About 1,700 parents of children under 7 years old (as of 2011)
Work-life balance consulting	Local governments (Shinagawa Ward etc.) and companies
Disaster reconstruction	47,718 children played in indoor parks; about 850 junior/ senior high school students took the correspondence courses
Advocacy	The Japanese central government; general public in Japan
Childcare for children with disabilities	Nursery school: 15 children from age 1 to 6 with physical/ mental disabilities, including 5 children with severe disabilities
Baby adoption support	N/A (In its business preparation phase)

**6.1.2 Social impact measurement**

As a social enterprise with a mission to solve social problems, Florence emphasizes the importance of tracking its social performance. It has developed internal Key Performance Indicators (KPIs), including a number of service users, Net Promoter Score (NPS) and Employee Net Promoter Score (eNPS).<sup>4</sup> For instance, Florence sends a brief questionnaire to

<sup>4</sup> NPS is a metric for assessing customer loyalty by using a simple questionnaire while eNPS is a metric for

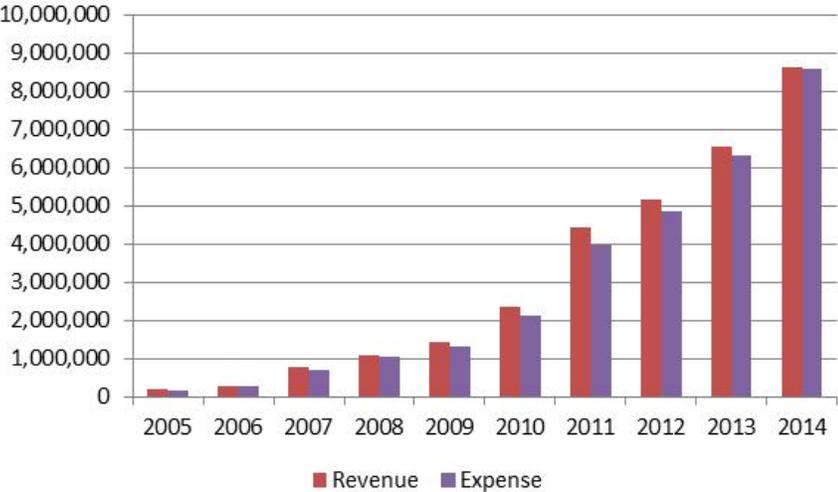
their members every time they use the childcare service. Florence uses such data internally for improving its management.

## 6.2 Financial Performance

### 6.2.1 Revenue and expenses

Florence reached its breakeven point<sup>5</sup> in 2007 – an early achievement for a nonprofit. As it expanded its business, its revenue has increased by 46 times from 2005 to 2014.

**Figure 6 The trend of Florence’s revenue & expense (USD) by year (2005-2014)**



### 6.2.2 Proportion of income from sales

Being a nonprofit, Florence can access different sources of income, such as donations and subsidies, especially for developing business models in greenfield markets. As of 2014, Florence’s main income sources include business revenue (55%), subsidies (32%) and donations (12%). Florence maintains a certain level of financial sustainability by securing the majority from the business revenues. It also obtains government subsidies for its services certified (e.g., nurseries) or commissioned by the government. Finally, it utilizes donations to make services affordable for low-income customers in need (e.g., sick-child care for single parents) or to start a new business (e.g., crowdfunding for starting its adoption service). As

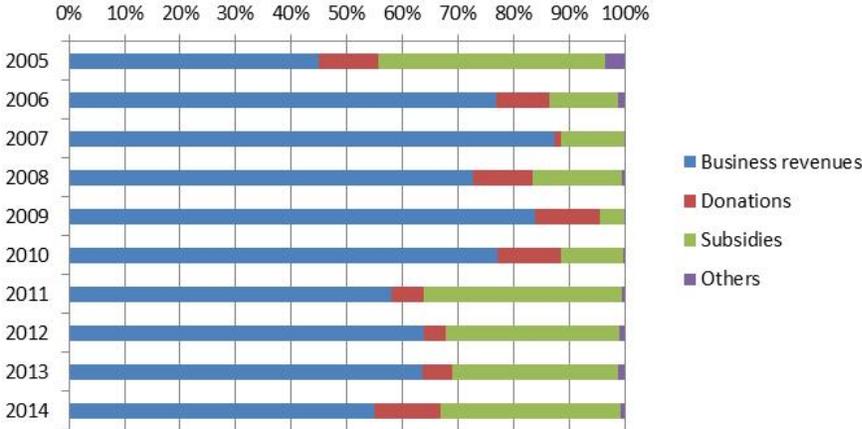
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assessing employees’ loyalty.

<sup>5</sup> NPO can operate both revenue-generating and non-revenue generating services. Thus, here, a positive increase in net assets is regarded as equivalent to breakeven.

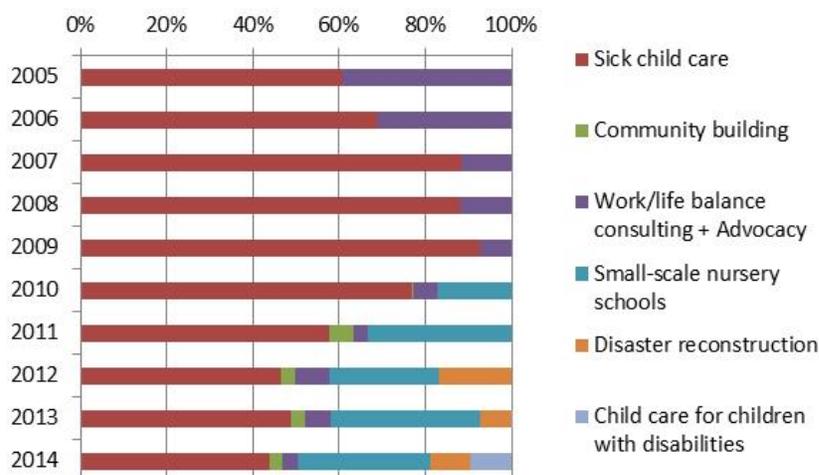
shown in the graph below, Florence depended on subsidies in the early days with business revenues representing less than 50% of the total revenue. From 2006 to 2010, more than 70% of Florence’s total revenue came from its business as it developed and expanded its sick-child care business. From 2006 onward, Florence has succeeded in sustaining the 50% level in terms of the proportion of business revenue to total. With the steady growth of its sick-child care business, Florence ventured into developing new social businesses, such as small-scale nurseries and child care for children with disabilities by utilizing subsidies and donations. In essence, Florence relies on subsidies and donations to kick-start new initiatives, while it develops a more robust business model once the new initiatives gain traction and demonstrate initial signs of financial self-sufficiency.

**Figure 7 Breakdown of revenue by source (2005-2014)**



The graph below represents Florence’s business diversification from 2010 by starting its small-scale nursery service. In 2014, business revenue from its sick-child care business constituted only 44% of the total business revenue, while small-scale nursery business contributed 30%, followed by disaster construction (9%) and child care for children with disabilities (9%).

**Figure 8 Breakdown of revenue by business line (2005-2014)**



## 7. Business Development and Ecosystem Evolution

Florence’s business development can be categorized into Start-up, Early and Growth stages<sup>6</sup>.

**Table 4 A summary of Florence’s business development milestones from 2005- present**

Stage	Year	Care Service for Sick Children	Nursery	Other Business Lines
Start-up	2004	Registered as a specified nonprofit corporation		
	2004	Failed to start its facility-based model		
Early	2005	Started its home-based model		
	2006	Expanded coverage from 2 to 6 areas		Started community building service
	2007	<b>Reached a break-even point</b>		
	2007			Started work-life balance consulting
First growth	2008		Started business development	
	2009	Expanded coverage to 23 areas		

<sup>6</sup> **Start-up stage:** a preparation period for setting up a business or an enterprise. An entrepreneur’s team develops a business idea and a business model. In some cases, they have product/service prototypes which are not fully developed or tested. **Early stage:** A period from business initiation until business scale-up. An entrepreneur’s team may first deliver its products/ services in a test market to examine its business model. Also, the team may file patents or obtain licenses, if necessary. Once the business model is consolidated, it starts its business. However, the business remains quite small due to lack of capacity and resources. It may reach a breakeven point at the end of this period. **Growth stage:** A period after scaling up the business. The business exceeds the breakeven point and increases its sales, number of beneficiaries, the market share etc. The team revises the business model in order to sustain and/or expand the business, if necessary. In some cases, the team starts to investigate new products/services.

	<b>2010</b>	<b>The model replicated in Osaka by another nonprofit, Nobel</b>	Started first small-scale nursery		
	2011			Started services for disaster reconstruction	
Second growth	<b>2012</b>	Expanded to suburban areas	<b>A new law approved</b>		
	2012		Established National Small-scale Nursery Association		
	2012	Registered Florence as an NPO			
	2013	Started a certification course for care professionals			
		Expanded to prefectures beyond Tokyo			
	2014	Started services for children with disabilities		Started disabled-child care	
	2015	Expanded by receiving subsidies from Tokyo Met. Government	<b>A new law implemented</b>	<b>Under the new law, 1,655 nursery schools are certified</b>	Raised USD154,000 through crowdfunding for a new business for adopting babies
			Opened a small-scale nursery in an area affected by the earthquake		
				Started the first home-based child care for children with disabilities	
<b>2016</b>	Established National Children with Medical Care Association				

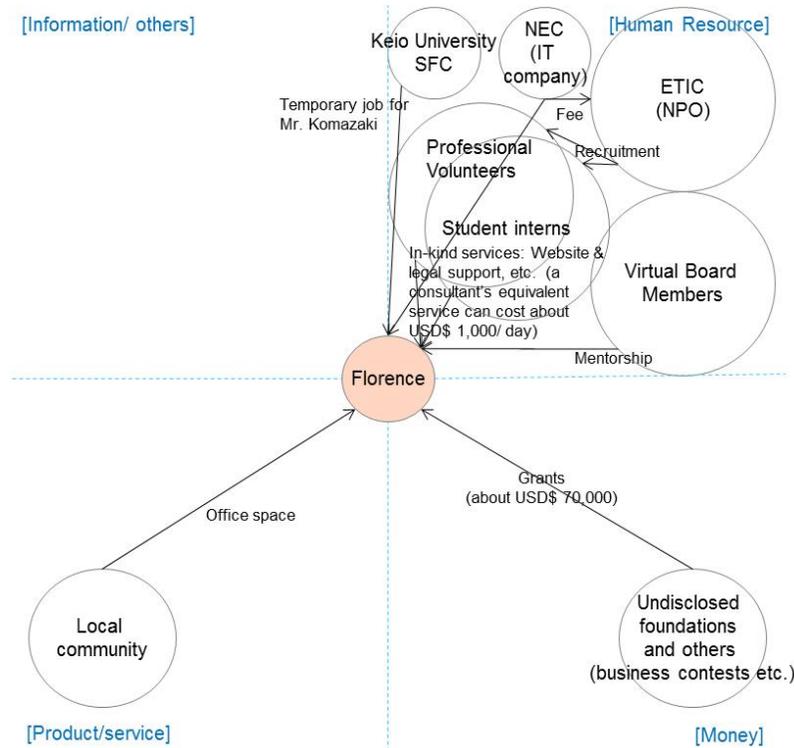
## 7.1 Start-up Stage (2004 - April 2005)

### 7.1.1 Milestones

This is the period before Florence started its home-based care service for sick children in April 2005. Major milestones include: registering Florence as a “Specified Nonprofit Corporation” in April 2004; and failing to start a sick-child care facility later in 2004. The challenges in this stage involved developing a new business model to solve the sick-child care problem. Its experience in failing to launch the conventional facility-based care enabled Komazaki to develop an unconventional business model focused on home-based service.

### 7.1.2 Key supporters

**Figure 9 Florence’s key supporter mapping in its Start-up stage (before April 2005) <sup>7</sup>**



Mentors, interns and professionals were vital to build Florence’s support base. Keio University Shonan Fujisawa Campus (SFC) held moderate influence in fostering Komazaki’s entrepreneurial spirit through the university’s entrepreneurship education, initiatives to run ventures, and an entrepreneurial community of professors and students. Dozens of well-known social entrepreneurs in Japan today are graduates of Keio SFC.

In addition, ETIC, a social business incubator, played a key role in supporting Komazaki during the start-up phase. Sponsored by corporate giants such as NEC, ETIC not only provided Komazaki with its own mentorship but also selected 4-5 mentors called “Virtual Board

<sup>7</sup> How to look at this key supporter map:

- The name inside the circle represents the key supporters.
- Depending on the kind of support they provide (HR, Product/ services, money, information), the circles are located in respective zones.
- The brief descriptions of the support are written on the arrows.
- The size of the circle expresses the level of impact (high, medium, low).

Members (VBMs)”. One of the VBMs was Ms. Harue Ishikawa, a founder of a nonprofit called Care Center Yawaragi, a pioneer of elderly care services in Japan; the Ministry of Labor and Health later developed the elderly care health insurance system based on Yawaragi’s model. Ishikawa advised Komazaki especially on how to promote systemic change by demonstrating a service model and letting the government copy the model. She later became Florence’s board member.

Mr. Haruo Miyagi, ETIC’s Founder, effectively guided Komazaki in developing an unconventional solution by refocusing on the social issue after he failed to launch the conventional facility-based care service for sick children. Similar to Ishikawa, Miyagi also joined the board of Florence later on. Student-interns selected by ETIC made significant contributions in setting up the organizational systems of Florence especially in the start-up stage, but also later in the early stage. Unable to afford to hire full-time staff, start-ups often rely on such human resources. Some of the student-interns later became Florence’s first employees and played essential roles in developing the core businesses of Florence.

Ms. Yoshimi Okamoto, a freelance marketing consultant, supported Florence in the very initial formulation of marketing strategies. She later became the Vice President of Florence. With her arrival, Florence established its “professional volunteer” system in which individuals would provide free in-kind services, such as legal work by lawyers.

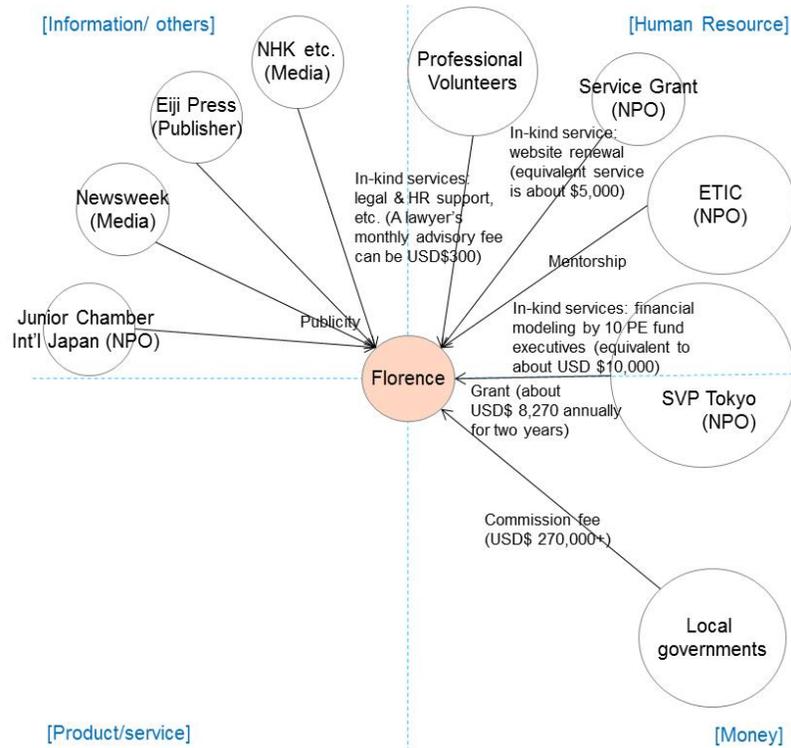
## **7.2 Early Stage (April 2005 - December 2007)**

### **7.2.1 Milestones**

The beginning of this stage was marked by Florence’s service initiation in 2005. Florence gradually expanded its core sick-child care business from the initial two wards to eight wards, started its child-raising community building business and work-life balance consulting service. As a result, it reached a breakeven point in 2007. Notably, 2007 was the year when it started the sick-child care service for single parents. Florence’s main challenge in this stage revolved around improving its business model and to build its organizational capacity so that it can reach a breakeven point and beyond. In July 2006 Florence opened a new business line related to community building and started its service in a child-raising friendly apartment in Tokyo. In addition, Florence launched another business line in work-life balance consulting and provided its service to the Shinagawa Ward Government in Tokyo.

## 7.2.2 Key supporters

**Figure 10 Florence's key supporter mapping in its early stage  
(April 2005 to December 2007)**



In its early stage, Florence continued to receive support in terms of human resources. However, compared with its start-up stage, the social enterprise received more practical support to strengthen its business model and organizational capacity. For instance, Social Venture Partners (SVP) Tokyo played a key role in strengthening Florence's business sustainability by introducing first-class business professionals who provided general management advice, developed financial models and branding strategies. Some later became board members of Florence.

Also, during this phase, ETIC involved Komazaki in building a community of social entrepreneurs in which entrepreneurs could share their experiences. The media also contributed in not only improving Florence's name recognition but also raising public awareness of social entrepreneurship and social issues such as sick-child care. Through TV

news and newspaper articles, many professionals, including lawyers and HR managers of large corporations, contacted Florence to offer their pro bono support.

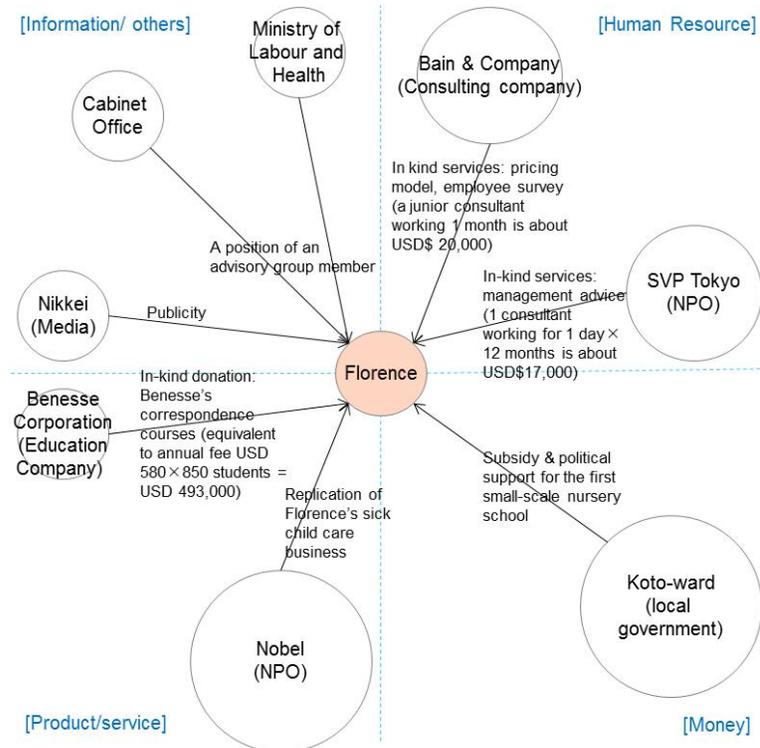
## **7.3 First Growth Stage (2008 - July 2012)**

### **7.3.1 Milestones**

Florence's growth stage can be divided into two sub-stages. The first growth stage spanned from 2008, a year after reaching a breakeven point, until July 2012, when it made systemic changes by contributing to the passing of a new law regarding small-scale nurseries. Florence grew rapidly in this period. It launched its small-scale nursery service, which became its second core business, and continued to expand its home-based care for sick children. Florence first negotiated with the Ministry of Labor and Health to acknowledge Florence's first small-scale nursery as an experimental project. Then, it invited many key politicians and government officials for a site visit to deepen their understanding. Florence's business model was replicated in the Kansai area by a separate nonprofit called Nobel founded by Ms. Aki Kou. Florence shared its business know-how and data with Kou by inviting her to work at Florence in 2008. Even after Kou left Florence to launch Nobel in 2009, the Florence management team regularly provided her advice. Also, in response to the Great East Japan Earthquake in March 2011, Florence initiated disaster reconstruction projects to support parents and children in the disaster-affected areas.

### 7.3.2 Key supporters

**Figure 11 Florence's key supporter mapping in its first growth stage (2008 - July 2012)**



The noteworthy stakeholder in this period is Nobel, a nonprofit founded by Ms. Aki Kou, which replicated the business model of Florence in the Kansai area. For people who are keen to start their own home-based sick-child care ventures, Florence welcomes them to become temporary staff to gain first-hand experience.

Another milestone for Florence was launching of the small-scale nursery school. In Japan, the local governments provide subsidies to nurseries in order to make them affordable and accessible to working parents; however, the idea of a small-scale nursery fell outside the scope of the existing law. Given this situation, the Koto Ward Government in Tokyo had to be creative and decided to pitch for the small-scale nursery proposal from a budget category different from the regular one. The Koto Ward aimed to test whether this model could be a new solution to the severe lack of nurseries. Florence strategically invited politicians and officials from the central government to observe the small-scale nurseries in Koto, which later contributed to

persuading the government to certify small-scale nurseries.

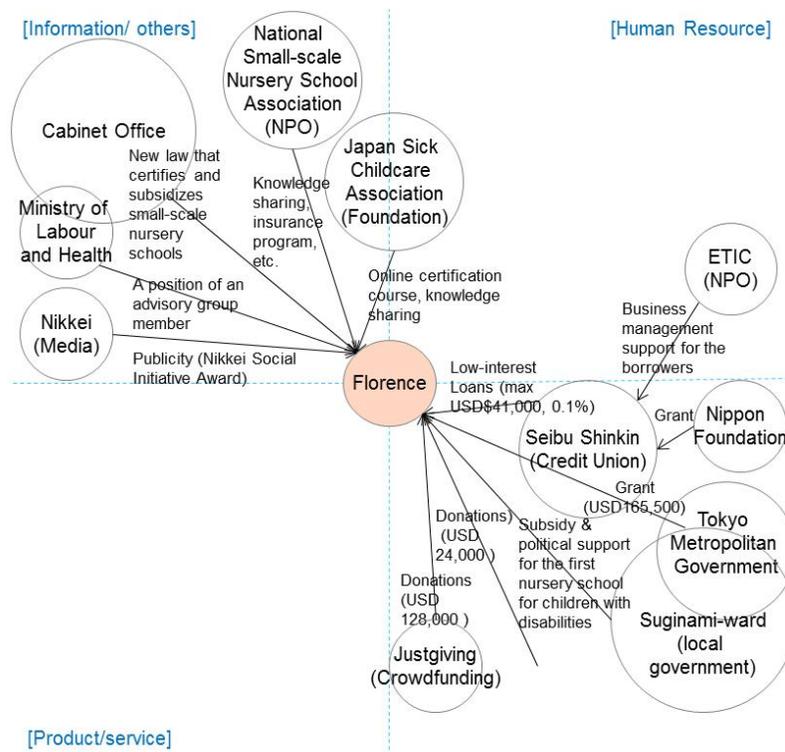
## 7.4 Second Growth Stage (July 2012 - Present)

### 7.4.1 Milestones

Florence contributed to making systemic changes by lobbying the government to develop and implement a new law regarding small-scale nurseries based on Florence’s model. As a result, 1,655 small-scale nurseries have been certified and subsidized as of April 2015. Florence also launched Japan’s first childcare services for children with disabilities. It is in this stage that Florence became increasingly more active in lobbying activities. Komazaki currently serves the chairman or a member of many advisory bodies for the government including the following: National Assembly of Dormant Account Funds; Ministry of Labor and Health’s project on “Fathers as Active Childtakers”; and the Child and Child Raising Committee housed within the Cabinet Office and the Tokyo Metropolitan Government.

### 7.4.2 Key supporters

**Figure 12 Florence’s key supporter mapping in the second growth stage (July 2012- )**



Florence accelerated its diversification of businesses by launching Japan's first nursery school and home-based medical care for children with disabilities. In the process of commencing these businesses, the support of the local (ward) government played an essential role, similar to the case with starting small-scale nurseries. In this instance, given the lack of law to subsidize such services for children with disabilities, the Suginami ward used a budget from another related category to fund such services.

In the previous stages, the key supporters around Florence, such as pro-bono professionals, provided support for organizational growth. However, from this stage, Florence itself started to act as a key ecosystem player by building market infrastructure through establishing industry associations and promoting systemic changes through memberships on government advisory bodies. For instance, Komazaki developed partnerships with politicians and government officials through various channels such as media exposure, site visits, and study groups. As a result, the government's new law contributed in formalizing and expanding the small-scale nursery market by certifying not only those under Florence, but also other small-scale nurseries covering a total of 1,655. Komazaki established the National Association for Small-scale Nursery to continue improving the quality of Japan's small-scale nurseries and to propose policy recommendations.

Another trend observed in this stage is the increase in the number of financiers and financial intermediaries in the social enterprise ecosystem. Compared to about 10 years ago when Florence just started its business, a much more diverse set of income sources is available for nonprofits in Japan today. Florence has utilized such new funding sources to support its new business launches. For instance, Florence has accessed the Seibu Shinkin's low-interest loans to support the initial costs of childcare services for children with disabilities. It also took advantage of crowdfunding platforms to support the initial costs of non-facility-based care for children with disabilities and adoption services.

## **8. Scalability and Replicability**

What are the necessary conditions for Florence's social businesses to further scale and be replicated in the future? The table below addresses this question for Florence's two core

businesses: care service for sick children and small-scale nurseries.

**Table 5 Key elements of Scalability and Replicability**

	Care service for sick children	Small-scale Nurseries
Scalability	<p><b>(a) Locally adjusted operation:</b> The current operation model is based on Tokyo’s local context, such as dense population and well-developed public transportation. The operation model needs adjustment based on the local context especially in smaller cities.</p> <p><b>(b) Sufficient supply of service staff:</b> There needs to be enough service staff who can visit members’ houses shortly after being called for. The association set up by Komazaki runs an online certification course to increase sick-child care specialists.</p>	<p><b>(a) Increase in salary of certified nursery school teachers:</b> There is a lack of nursery school teachers due to their low salary levels set by the government. Florence advocates for reforms. The Japanese ruling party has recently launched a working group on this issue.</p> <p><b>(b) Deregulation by local governments:</b> In addition to the national regulation, local governments have their regulations hinder operators from opening up new nurseries. Also, some local governments provide very little subsidy to small-scale nurseries.</p>
Replicability	<p>In addition to the above conditions, a necessary factor for replicability includes:</p> <p><b>(a) Entrepreneur’s commitment:</b> entrepreneurs need to have strong commitment to invest time and energy to develop a locally adjusted business operation.</p>	<p>The above conditions are also necessary when other organizations replicate the small-scale nursery school model.</p>

## 9. Final Reflections

### (a) Business as a means to achieve impact

Florence serves as an exemplary of a social business run by a nonprofit. Komazaki, the founding entrepreneur, became upset when he learned that the Ministry of Labor and Health will use Florence’s model without his permission. However, it was Ms. Harue Ishikawa, his mentor and a board member, who reminded him that this is precisely an outcome nonprofits should aim to achieve. Ishikawa had started her own elderly care service organization, Care Center Yawaragi, and the Ministry of Labor and Health developed today’s Elderly Care Insurance System based on her proven business model. For social-business nonprofits, achieving social impact is the ultimate end while the business or financial profits serve as the means to that end.

### **(b) Sustainability**

In order to achieve financial sustainability, Florence combines various income sources (namely service fees, donations, and subsidies) for risk mitigation, while maintaining the income from service fees to be more than 50% of its total revenue. It is notable that Komazaki developed a profitable business model, tested and expanded it very rapidly so that the organization reached a break-even point within three years. His strategy to diversify funding sources and business lines were prudently deliberated: (i) he started low-cost services for single parents only after his start-up business passed a breakeven point, presumably empowering his negotiating position; (ii) he started tackling other social problems – bigger or smaller – in strategic ways both in terms of maximizing synergetic effects among the projects undertaken, and in terms of ensuring financial soundness.

### **(c) Achieving scale through replication by peer organizations**

In order to achieve greater social impact, Florence not only expands its own businesses, but also welcomed others to replicate its business model. Florence made this strategic decision to let other organizations replicate its business model rather than to open its own branches, considering the labor-intensity of a gradual national scale up. Such a strategy would have been impossible if Florence were a profit-maximizing company. The case of Florence demonstrates that self-expansion is not the only way to generate social impact.

### **(d) Nonprofit as an effective change-maker**

Florence demonstrated that by utilizing vacant apartment rooms, the small-scale nursery school model can drastically reduce the initial investment cost and significantly lower the barrier to market entry. Seeing it as an effective solution for mitigating the nursery school shortage, the government developed a new law certifying small-scale nurseries with less than 20 students in 2012. When the government started implementing the new law in 2015, 1,655 small-scale nurseries were certified. Overnight, Florence's competitors increased from none to 1,654. Being a nonprofit, Florence was able to take such measures by prioritizing its social impact over financial profits. In his book, Komazaki explains that it is easier for a nonprofit than a private company to persuade the government to make policy changes: the government fears to be criticized for making policy changes in favor of the profit of a few private companies.

#### **(e) Importance of following up on systematic changes**

Komazaki highlights in his book the importance of follow-up after achieving systemic changes. For instance, he established the Japan Sick Childcare Association in 2012, the National Association for Supporting Children with Medical Care in 2015, and the National Small-Scale Nursery School Association in 2012. These associations contribute to awareness-raising among stakeholders – private, public and nonprofit sectors – and building a community of practice to exchange information, know-how and best practices: an essential element for social innovation. Komazaki and Florence have played critical roles in building the basic “social infrastructure” behind all this.

#### **(f) Pitfall of mission drift**

Komazaki also describes in his book about a potential pitfall of “mission drift” as one of the challenges of a social enterprise in its growth phase. While the founder increasingly needs to delegate his authority to staff and build internal teams and systems that can run the business without him/her, a social enterprise must be mindful that its original core business still has the necessary resources to maintain a high quality of services. This is important especially when starting a new business line that would require resources and attention.

#### **(g) Ecosystem**

Over these years, only a small number of ecosystem players together contributed to creating the social business movement in Japan. Since the social business sector is nascent in Japan, some of the players such as SVP Japan deliberately tried to narrow its focus. The ecosystem functions that may have helped Florence to generate social innovation were: in the start-up stage, mentoring to help a social entrepreneur to bring back his/her focus on the social issue; in the early stage, pro bono business professionals to help improve the business model and build organizational capacity.