Scaling the Social Venture

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Learning Objectives

• To understand the salient reasons for scaling a social venture
• To appreciate and address the obstacles to scaling
• To identify the organizational capacities essential to a scaling effort
• To master the strategies available to social entrepreneurs for scaling their ventures and the strengths and limitations of each of those strategies
Key Course Considerations

**Innovation:**
- New idea
- Market solution
- BoP

**Sustainability:**
- Triple bottom line
- Impact
- Self-sufficient

**Scale:**
- Max SROI
- Grow/expand
- Replicate the model
Growing the BOP

- Creates rural employment
- Spawns multilayered economic development
- Stimulates rural growth
- Evolves regional role models for others to emulate
- Improves local economic activity
- Enhances productivity and efficiency at local level

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How Do Commercial Firms Grow?

- **Economies of Scale** – Increasing production lowers average costs per unit
- **Economics of Scope** – Range of operations creates efficiencies
- **Market Leadership** – Desire to hold dominant market position
- **Survival of the Fittest** – Larger businesses usually have influence and power
- **Growing Customers** – Accommodate a key customer
- **Attract and Retain Talented Employees** – Generate promotional opportunities

How About Social Ventures?

- Scale to achieve as much impact as possible to match magnitude of the problem
- High-impact social entrepreneurs focus on maximizing social return on investment (SROI)
- Funders want their grant dollars to achieve as much social mission as possible
- The emerging paradigm is to strive to expand the triple bottom line
Myth vs. Reality

Myth
• A social venture will not grow quickly unless it is in a high-growth sector
• Rapid growth requires a venture being the first of its kind

Reality
• Growth is more a characteristic of the specific venture and business model than the overall sector
• First-mover advantage is not as critical when there is unmet need that an enterprise can address

Is it really over for the “little guy”?
Challenges to Growth

- Staff and board do not see the urgency for growth or support entrepreneur’s vision
- Internal culture feels growth would detract from its mission
- Funders and stakeholders do not support the entrepreneur’s impetus for change
- Cannot demonstrate success in achieving its mission or how change will make a difference
- Lacks necessary human resources and skill sets to support growth

Required Capacities:
1. A clear mission
2. An appropriate legal and organization structure
3. A unified and supportive culture
4. Good and relevant data
5. Necessary physical and human resources
6. Effective leadership capability and a functional governance apparatus
7. Copy what works for others
Day-to-Day Challenges to Growth

- **Cash Flow Management** – Need increasing amounts of cash to grow
- **Price Stability** – Growth at competitor’s expense could result in a price war
- **Quality Control** – Increasing firm activity can result in quality issues if cannot increase resources to handle the extra work
- **Capital Constraints** – Investment limits are an ever-present problem for growing firms
- **Capacity Building** – Managerial resources are insufficient to take advantage of its new product and service opportunities
Day-to-Day Challenges to Growth (Cont'd.)

Basic Model of Firm Growth

Entrepreneurial Idea
- Recognize new market, product, or service opportunities

Managerial Services
- Administration of the routine functions of the firm and the execution of new business opportunities

Firm Growth
- Internal
- External
- Network
- Etc.

Capacity Constraints
- Managers and personnel
- Cash and capital
- Supply chain
- Risks of growth
Social Venture Strategies for Growth: Dissemination

- Make your social venture’s model and intellectual property (IP) widely available to people and organizations who want to use them:
  - Implies trust and openness
  - *Advantages* – Cost, speed of adoption, maximizing mission accomplishment, fostering relationships with social sector players
  - *Disadvantages* – Lose control over the quality of the product or service as well as the IP

Cost: Low
Control: Low
Social Venture Strategies for Growth (Cont’d.): Branching

• The antithesis of dissemination – Creating multiple offices in locations says: “We don’t trust you to do our work in your community”:
  ○ Advantages – Maximizes control, making it best for consistent quality of service and/or protection of IP
  ○ Disadvantages – Inefficient because it requires buying or leasing additional facilities and office equipment, hiring and training additional staff, and managing from a distance
Social Venture Strategies for Growth (Cont’d.): Affiliation

• A compromise between dissemination and branching, creates a relaxed connection with outlying locally-managed and staffed offices:
  
  o *Advantages* – Less expensive to implement because local affiliates are financially self-supporting and might even make regular donations to the home office; also
  
  o *Disadvantages* – Less threatening to local communities because reduced outside control
Social Venture Strategies for Growth (Cont’d.)

Social franchising

• A hybrid of branching and affiliation that permits scaling at a faster rate and a lower cost while maintaining control over quality and the brand:
  - A franchisor with a successful product or service licenses its business format to a franchisee in exchange for a fee and ongoing royalty payment
  - Difficult to establish the value of what the franchisor brings to the relationship because social return on investment (SROI) is more difficult to measure than financial return on investment
### Social Venture Strategies for Growth (Cont’d.)

**Social franchising (cont’d.)**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>• Rapid, low-cost market expansion</td>
<td>• Profit sharing</td>
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<tr>
<td>• Income from franchise fees and royalties</td>
<td>• Friction with franchisees</td>
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<tr>
<td>• Franchisee motivation</td>
<td>• Managing growth</td>
</tr>
<tr>
<td>• Access to ideas and suggestions</td>
<td>• Differences in required business skills</td>
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<td>• Increased buying power</td>
<td>• Legal expenses</td>
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![Franchisee Control and Costs Diagram](image)

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Business Growth Strategies

Internal Growth Strategies

- Marketing enhancers
- New product development
- Go global!

External Growth Strategies

- Mergers and acquisitions
- Licensing
- Strategic alliances and joint ventures
Business Internal Growth Strategies

Advantages
- Incremental, managed growth
- Provides maximum control
- Preserves organizational culture
- Encourages intrapreneurship
- Allows firms to promote from within

Disadvantages
- Slow growth
- Must develop new resources
- Investment in a failed internal growth can be difficult to recoup
- Adds to industry capacity

Marketing enhancers
New product development
Go global!
Business Internal Growth Strategies (Cont’d.): Marketing enhancers

- Heighten awareness of venture and its mission to drive customers or beneficiaries
  - **Marketing plan** consists of:
    - *Market Analysis* – Identify customers’ demographics, behavior patterns, lifestyle
    - *Competitive Analysis* – Identify social value proposition and uniqueness
    - *Marketing Strategy* – Product or service pricing, promotion, distribution
  - **Branding** makes you unique in a way that will stick in customers’ minds by emotionally connecting to the customer and stakeholders
  - **Cause-related marketing** can be a very effective way for a social venture, particularly one with a non-profit structure, to raise money for expanding its reach
### Business Internal Growth Strategies (Cont’d.): Marketing enhancers (cont’d.)

<table>
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<th>New Markets</th>
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<td><strong>New Markets</strong></td>
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<tr>
<td>Improve product or penetrate market (e.g., increase quality, marketing efforts, capacity)</td>
<td><em>Market-Driven Growth</em>: Find new consumers for existing services (e.g., take business model to new segments or geographies)</td>
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<tr>
<td><strong>New Products</strong></td>
<td><strong>Product diversification (move beyond current offerings)</strong></td>
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<tr>
<td><em>Product-Driven Growth</em>: Add activities or programs (e.g., develop new services or additional variations; extend product lines)</td>
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Business Internal Growth Strategies: New product development

• Creating and selling new products (or services) to increase revenues

Keys to Effective New Product Development:
• Find a niche and fill it
• Develop products that add value
• Get quality and pricing right
• Focus on a specific target market
• Conduct ongoing feasibility analysis

Common Reasons for New Product Failure:
• Inadequate feasibility analysis
• Overestimate market potential
• Bad timing
• Inadequate advertising and promotions
• Poor service
Business Internal Growth Strategies: Go global!

- **Exporting** – Producing a product at home and shipping it to a foreign market.
- **Licensing** – A firm with the proprietary rights to a product grants permission to another firm to manufacture/sell that product for specified royalties or other payments.
- **Joint Ventures** – Establishing a new firm that is jointly-owned by two or more otherwise independent firms.
- **Franchising** – An agreement between a franchisor and a franchisee.
- **Turnkey Project** – A contractor from one country builds a facility in another country, trains the personnel that will operate the facility, and turns over the keys to the project when it is completed and ready to operate.
- **Wholly Owned Subsidiary** – A company that has made the decision to manufacture a product in a foreign country and establish a permanent presence.
Business External Growth Strategies

Advantages

• Reduce competitors
• Access to proprietary products, new products or markets, technical expertise, established brand name
• Economies of scale
• Diversify business risk

Disadvantages

• Incompatibility of top management
• Clash of corporate cultures
• Operational problems
• Increased business complexity
• Lose organizational flexibility
• Antitrust implications
Business External Growth Strategies (Cont’d.): Mergers and acquisitions

• Pool interests to combine two or more firms into one (merger) or outright purchase of one firm by another (acquisition):
  – Expand product line
  – Access to distribution channels
  – Economies of scale

• Questions:
  – Willingness to partner?
  – Which organization?
  – What are the stakes?
  – Is there a catalyst leader in both organizations?
  – Other supporters / stakeholders?
  – Enough (but not too much) time to discuss?
  – Do missions align?
  – Can productive personal relationships develop?
Business External Growth Strategies (Cont’d.): Licensing

• One company grants permission to another company to use a specific form of its intellectual property under clearly defined conditions

• Virtually any intellectual property a company owns that is protected by a patent, trademark, or copyright can be licensed to a third party

• The terms are spelled out by a licensing agreement:
  o Technology Licensing – Proprietary technology that the licensor typically controls by virtue of a utility patent
  o Merchandise and Character Licensing – A recognized trademark or brand that the licensor typically controls through a trademark or copyright
Business External Growth Strategies (Cont’d.): Strategic alliances

• A partnership between two or more firms developed to achieve a specific goal:
  o Technological Alliances – Feature cooperation in R&D, engineering, manufacturing
  o Marketing Alliances – Typically match a company with excess distribution capacity with a company that has a product to sell
• Usually informal and does not involve the creation of a new entity
• Can boost product innovation and foreign sales
Business External Growth Strategies (Cont’d.): Joint ventures

• An entity created when two or more firms pool resources to create a separate, jointly-owned organization
  o Scale Joint Venture – Partners collaborate at a single point in the value chain to gain economies of scale (e.g., production or distribution)
  o Link Joint Venture – Positions of the partners are not symmetrical, so help each other access adjacent links in the value chain
• Often necessary to gain access to a foreign market
Business External Growth Strategies (Cont’d.): Strategic alliances and joint ventures

Advantages
- Gain access to a specific resource
- Speed to market
- Enter a foreign market
- Economies of scale
- Share risk and cost
- Learn
- Neutralize or block competitors

Disadvantages
- Lose proprietary information, organizational flexibility, decision autonomy
- Management complexities
- Financial and organizational risks
- Might depend on a partner
- Clash of cultures
Value Net(working): Eco-systems for external growth strategies

• Question #1: With whom should I partner (e.g., merge, license, build alliances)?

Eco-system examples: Japan’s “keiretsu” and Korea’s “chaebol”
Value Net(working) (Cont’d.): Eco-systems for external growth strategies (cont’d.)

• Question #2: Why is networking necessary and beneficial under the present circumstances?
  o Resource scarcity and growing competition for resources
  o Growing societal mandate for greater efficiency
  o Increasing demand for documented performance

• Question #3: How should I approach successful alliance building?
  o Shared mission, vision, values
  o Members roles clearly defined and understood
  o Effective leadership necessary to move forward
  o Number and type of networks required varies with life cycle stage
Preparing For Growth

• Appreciate the important realities of business growth:
  o Not all businesses will become “gazelles”
  o A business can grow too fast
  o Business success doesn’t always scale

• Establish growth-related plans:
  o Determine the growth strategy as soon as possible
  o Do not become distracted or pursue every growth opportunity
  o Write a business plan
Managing Risks of Growth

- Get help from experts and network with others
- Gather and use data to find signs of volatility or change
- Plan with realistic models, updated frequently
- Diversify the support base to spread the risk
- Grow and make commitments in stages
- Fix organizational weaknesses
- Avoid all-or-nothing bets – work steadily towards your BHAG
The End

• Many enterprises fail:
  – Just as in commercial ventures, there are high failure rates among social ventures
    • Environmental, religious, arts seem to be particularly fragile
  – Interpreting failure:
    • Social enterprises close because of market mechanisms
    • Failure of a social enterprise is not a moral lesson, but neither do social entrepreneurs have “moral immunity” from failure
    • One organization’s failure is an opportunity for another one to succeed

• Some enterprises succeed – make yours one of them!
  – Attaining goals is the last stage of entrepreneurship
  – Harvest the gains when you cannot divide or distribute wealth:
    • Integrate into another social venture
    • Win and move on
      – Redefine to meet a new social mission
      – Shut down and distribute to other non-profits
    – The needs for creating the social enterprise are likely to continue to exist even if successful
Conclusions

• True social entrepreneurs scale their ventures in order to maximize the reach of their mission
• There are challenges to growth that must be faced; however, there are also strategies that can help social entrepreneurs to overcome these challenges
• Prepare for growth but be aware of the risks, the odds are against you!
• For more information and sources, see
  https://pinterest.com/mgt460/scaling-growing-social-ventures/
Course Purpose

• Summarize key principles of social entrepreneurship
• Identify the challenges and opportunities of social entrepreneurship
• Use evidence to analyze, evaluate, and exploit a social opportunity for an entrepreneurial venture
• Apply business functions to create and sustain a social venture
• Prepare a business plan for a social enterprise
Questions?