Sustainability-Driven Entrepreneurship

Dissertation Findings, Cambridge University, 2013
“All men dream: but not equally. Those who dream by night in the dusty recesses of their minds wake up in the day to find it was vanity, but the dreamers of the day are dangerous men, for they may act their dreams with open eyes, to make it possible.”

T.E. Lawrence, Seven Pillars of Wisdom: A Triumph
• Who and what are sustainability-driven entrepreneurs?
• Why are they important?
• Area of research
• Findings
General Traits of Entrepreneurs

Individuals who start businesses with the intention to exploit an opportunity are identified as ‘opportunity entrepreneurs’ (GEM Report, 2012)

“Passion, and a desire for independence and autonomy are what drives most opportunity entrepreneurs to start and run their own business” (FutureFit, 2012)

- Risk takers
- Perseverance
- Flexibility
- High internal locus of control
- Learning and iteration
- Curiosity
- Optimism
- Innovation
The Concept of **Blended Value**

Value is itself a combination, a “blend” of economic, environmental and social factors, and that maximizing value requires taking all three elements into account.

- Jed Emerson (2000)
Sustainability-driven entrepreneurship refers to those individuals and initiatives that engage in market-based commercial activities to tackle challenging societal and environmental issues in order to contribute to a sustainable future.

Often referred to as social, environmental or impact entrepreneurs.
Examples of Sustainability-Driven Entrepreneurs... Market-driven and Mission-led

Muhammad Yunus
Social Entrepreneur

Wangari Maathai
Social and Environmental Entrepreneur
SDEs’ value propositions often target neglected, disadvantaged or distressed sections of society.

Create social, environmental and economic value that results in many benefits:

- Create innovative solutions that incorporate enterprise strategy to accomplish mission (i.e. work within existing markets)
- Change business norms through creative destruction and reconstruction (i.e. create new markets)
- Provide new employment opportunities
- Use business tools and approaches to achieve social objectives
- Blend social and commercial capital and methods
- Generate income from commercial activities to fund social programs
- Measure financial performance and social impact
- Meet financial goals in way that contributes to the public good

An important channel for equitably transforming market landscapes to low carbon, sustainable economies.
Source: Alter, 2004
http://www.4lenses.org/setypology
Internationally: an organization that applies commercial strategies to maximise improvements in human and environmental well-being, rather than maximising profits for external shareholders.

South Africa: “A social enterprise’s primary objective is to ameliorate social problems through a financially sustainable business model, where surpluses (if any) are principally reinvested for that purpose” (ILO, sited by Steinman, 2010).
Internationally, there is escalating mainstream interest in sustainability-driven entrepreneurs (SDEs) that has much to do with their value proposition and ability to transform societies through social disruption and persistence.

“What can be done to spur entrepreneurial solutions to global sustainability challenges?”

- poverty eradication
- inequality reduction
- transition of the economy to support a sustainable society
Anecdotal evidence on sustainability-driven ventures in South Africa

Number of start-up initiatives that have been running for some years, but ...

- very few have track records of high growth and replication, and
- although these ventures may have scalable business models, they have not, as yet, managed to achieve high impact.
What’s happening in South Africa?

What’s being done to support entrepreneurs in this area where huge opportunities for significant positive social and environmental impact exist?
What’s happening in South Africa?

GEM Report, 2012

South Africa’s global entrepreneurial ranking has fallen from 39 in 2011 to 45 in 2012, losing pace with smaller GDP countries such as Colombia and Peru - Global Entrepreneurship and Development Index (GEDI)
What about Social and Environmental Entrepreneurship?

Prevalence of Social Entrepreneurship Early-Stage Activity (SEA), by Global Region and Country

GEM Report on Social Entrepreneurship, 2009
With evidence of a weak entrepreneurial ecosystem in South Africa (GEM 2012), it is likely that SDEs, being primarily entrepreneurial in nature, will experience similar challenges and barriers as those of traditional, profit-driven entrepreneurs.

Yet, as their mission is more complex and contains a blended focus, questions arise:

- Are they experiencing challenges and obstacles that are different to their traditional counterparts?
- If so, what are these factors of constraint?
- How are they hindering development, activity and impact, and how significant are they?
- Following from this, are government, civil society, corporates, funders and support organisations aware of these constraints?
Why Perceptions?

• Entrepreneurial attitudes and perceptions play an important role in creating an entrepreneurial culture within an economy (Bosma and Levie, 2009)

• Entrepreneurial cognition theory (the ‘thinking-doing connection’): enablers and constraints influence perceptions, and perceptions and emotions drive actions (Schellenberg, 2008)

• The context in which these perceptions originate is vital to understanding the factors that enable and constrain entrepreneurial endeavours (Karanda & Toledano, 2012; Xavier, et al., 2013)
Area of Research

This research study seeks to explore the perceptions and beliefs of SDEs on the barriers and challenges that they are experiencing in their attempts to contribute to sustainable development in a South African context.
Considerations

• **Reality** .... perceived challenges may *not* be based on tangible circumstances or actual environmental conditions and may have no basis in reality ... motivation and decision-making is indirectly influenced by enablers and barriers and will ultimately impact on performance and action (Peters, O’Conner & Eulberg, 1985)

• This study is limited to an examination of those factors perceived as **barriers and obstacles** and does NOT include enablers or opportunities

• A **constraint** is a condition that prevents, restricts, or dictates actions and thoughts to the detriment of SDE development and growth, i.e. those factors that hinder sustainability-driven initiatives from improving, growing and scaling up in order to achieve higher impact
Phase 1

- Pilot Interviews (Qualitative, Primary Data)
- Literature Review (Secondary Data)

List of 121 challenges and obstacles

SDE Challenge Framework (12 themes) (Secondary Data)

Phase 2

- Surveys
  Target: SDEs only (Quantitative, Primary Data)

- Interviews
  Target: SDEs and support organisations (Qualitative, Primary Data)

- Analysis
  (consensus, similarities, differences and consistency of perceptions)

- Conclusion
Limited research on constraints and barriers in conjunction with context for SDEs as the concept is new, not well understood, and these entrepreneurs are usually regarded as a sub-category of the larger domain of entrepreneurship.

**Finance:** access to capital

**Government:** enabling legislation and regulations

**Support:** business development services (BDS)

**Growth:** scaling for impact
121 distinct challenges, 12 themes

Legal Framework, Policy and Government Support
Investment and Financial Support
Financial Sustainability
Cultural Mindset

Competition
Branding
Market Penetration
Organisational Management

Training and Networks
Partnerships
Support Organisations, Incubators and Accelerators
Monitoring and Evaluation

SDE Challenge Framework
Profiling SDEs for Interviews

Sustainability orientation and intent
Innovation evidenced through new product design, new technologies, new services or new organisational arrangements
Credible business models - real chance at addressing some of the big issues facing humanity
Been in business for > 2 years and there is evidence of their purpose in work done
Financially sustainable or desire/moving towards financial sustainability (internal revenue stream)
Section M: Q24 - What is your organisation's primary area of focus?

- Economic and social equity (development and poverty alleviation): 19%
- Environment (including energy and water): 31%
- Education: 3%
- Housing: 3%
- Health: 3%
- Something else (combinations): 41%
Section M: Q25 - Which of the following classifies the financial orientation of your organisation or activities?

- For profit: 59%
- Non profit: 13%
- Part for-profit, part non-profit (hybrid): 25%
- Something else: 3%
Engagements

✓ Conducted surveys, covering 12 themes (only targeted SDEs)

✓ Conducted 32 follow-up interviews with targeted, pre-selected social and environmental entrepreneurs

✓ Conducted interviews with 15 organisations dedicated to entrepreneur support to gain insights and a deeper understanding of these challenges from a support perspective
Are you ready for this?

Main Findings ...
Finding 1: **SDES stuck in Survival stage**

Although 53% of SDEs have been engaged in sustainability-driven activities for more than 6 years, the majority of SDEs indicated in their interviews that they had reached a plateau and were ‘stuck’ in the Survival stage of the model of growth for small businesses.

Why? Broadly, a disempowering entrepreneurial ecosystem!
Finding 2: General agreement

• Interviews and surveys produced deeply rich data sets with high convergence levels and broadly consistent results.

• Surveys - general agreement across 121 statements with less than 20% of statements returning a mixed response.

• Interviews - total of 51 challenges and obstacles were specified by SDEs and support organisations as having noteworthy impact on SDE development and sustainability-driven activities.
Finding 3: Dominant themes

- General agreement across 10 out of 12 themes.
- Most frequently cited barriers encapsulated within 3 dominant themes of constraint.
- 2 themes returned mixed responses.
Statistics

Dominant Themes of Constraint

Legal Framework, Policy and Government Support
Investment and Financial Support
Monitoring and Evaluation
Cultural Mindset
Training and Networks
Financial Sustainability
Access to Markets and Market Penetration
Branding
Organisational Management
Support Organisations, Incubators and Accelerators
Competition
Partnerships

0% 5% 10% 15% 20% 25% 30%

SUPPORT ORGANISATIONS  SDEs
Finding 4: Top challenges

(a) Lack of access to capital and funding, including access to information.

(b) Lack of provision of enabling environment by government agencies.

(c) Lack of diverse income streams to achieve financial sustainability.

(d) A paradigm shift of societal mindset required to understand and respond to blended value proposition.

(e) The issue of impact in monitoring and evaluating change.

(f) The lack of mature, experienced SDEs available as mentors and role models.
Finding 5: Divergent opinions

Three challenges where SDEs and support organisations have strongest diverging views on the significance of a constraint

<table>
<thead>
<tr>
<th>Challenge or Obstacle</th>
<th>Difference in opinion, expressed as %</th>
<th>Expressed as significant by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government, business and society are unable or unwilling to engage on, or are uneducated about, value proposition</td>
<td>51%</td>
<td>SDE</td>
</tr>
<tr>
<td>Lack of diverse income streams to achieve financial sustainability</td>
<td>35%</td>
<td>Support organisation</td>
</tr>
<tr>
<td>Lack of access to capital and funding, including access to information</td>
<td>29%</td>
<td>SDE</td>
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</tbody>
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Details of the Findings
Government

• SDES believe government is not providing an enabling environment and are highly dissatisfied with government’s role as an enabler.

• SDEs agree that government does not see SD entrepreneurial activity as a priority for the country.

Legal Framework, Policy and Government Support

| Lack of enabling legislation and regulations |
| Lack of incentivising policies |
| Government’s inability to respond to new paradigm or structures |
| Failing entrepreneurship programmes |
| Lack of support from government departments |
| Competition from government works programmes |
• Frameworks exist that provide general guidance only, with no detailed instructions.
• Current laws and by-laws do not support SDEs trying to solve societal and environmental issues.
• Policies not linked to indicators (with recourse and consequences) which then undermines commitment.
• SDEs exist in no-man’s land regarding their legal and financial status, with few structures and regulatory frameworks in place to assist them.
Lack of enabling legislation and regulations

Lack of incentivising policies

Government’s inability to respond to new paradigm or structures

Failing entrepreneurship programmes

Lack of support from government departments

Competition from government works programmes

- No acknowledgement or incentives exist for contributors of blended value.
- Government does not assist in stimulating demand for SD investment.
- Mixed messages - perverse subsidies exist for oil and electricity and at the same time government claims desire to move to a low carbon, climate resilient economy.
| Lack of enabling legislation and regulations |
| Lack of incentivising policies |
| Government’s inability to respond to new paradigm or structures |
| Failing entrepreneurship programmes |
| Lack of support from government departments |
| Competition from government works programmes |

- Government is slow and/or unable to support new solutions if they do not fit the current paradigm or structure.
• Government entrepreneurship programmes are in place but are failing to stimulate entrepreneurial activity.
• Programmes are not government’s core competency.
<table>
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<td>Competition from government works programmes</td>
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- Disinterest and sometimes disrespect shown to SDEs.
- Slow and inefficient communication mechanisms.
- Lack of inter-departmental liaison.
- Inability to make decisions.
Lack of enabling legislation and regulations

Lack of incentivising policies

Government’s inability to respond to new paradigm or structures

Failing entrepreneurship programmes

Lack of support from government departments

Competition from government works programmes

- Competing for market space with government ‘works’ programmes.
- Government is becoming biggest employer in the country instead of partnering with existing, experienced enterprises that understand the sector and have the requisite skills and competence.
- Mixed messages – is sustainable development to be achieved through local citizen action or government-dominated structures?
Finance

• Literature states that capital is available and there is a growing awareness of social investment as an alternate route to economic and social prosperity ... BUT perceptions on the ground point to a different conclusion.

• SDEs believe capital markets and financial instruments are not well developed, with financial institutions, investors and funders focusing instead on ‘high impact’/high growth entrepreneurs.
Triple bottom line focus brings complexity, requiring diverse funding sources

Lack of access to information rather than actual capital

Financial institutions and investors are uninterested or unaware of SDEs

SDEs do not meet most investment or funding criteria

Investment entrance level is too high

• SDEs at disadvantage as they manage business models that are more complex than commercial ventures.
• A single income source creates vulnerability, with potential to compromise mission and objectives in favour of a funder’s objectives.
• SDEs lack diverse sources of funding and income.
• Best sources of funding to pursue for financing of future initiatives are sales-generated revenue and foundation/aid grants. Least interest shown in banks and franchises.
| Triple bottom line focus brings complexity, requiring diverse funding sources |
| Lack of access to information rather than actual capital |
| Financial institutions and investors are uninterested or unaware of SDEs |
| SDEs do not meet most investment or funding criteria |
| Investment entrance level is too high |

- Access to seed capital is almost impossible to obtain.
- SDEs lack in-depth knowledge of capital markets.
- SDEs do not know where to go to find information or best ways to finance growth.
- Access to long-term financing (patient capital) and flexible investment is difficult to obtain.
- South Africa needs more experts (intermediaries) who can link SDEs to the right funding and investment opportunities.
• Lack of understanding and low awareness (on funding side) of how SD investment can benefit and meet client investment requirements.

• Low demand for blended value – not a priority.

• SDEs do not know where responsibility sits for branding and marketing of SD investment – with government or financial sector?
• Environmental and social investments tend not to show quick or high profit generation.
• SD entrepreneurship is not well understood by corporate social investment (CSI) groups and therefore funding is not easily obtained from corporates and big business.
• SDEs are not considered as impact entrepreneurs.
| **Triple bottom line focus brings complexity, requiring diverse funding sources** |
| **Lack of access to information rather than actual capital** |
| **Financial institutions and investors are uninterested or unaware of SDEs** |
| **SDEs do not meet most investment or funding criteria** |
| **Investment entrance level is too high** |

- SDEs need R500 000 – R5 million to scale and grow from current stage but entrance level for impact, VC and PE investors is about R10 million.
- Hurdle rates are set too high.
SDEs understand that in order to receive support they need to provide ‘evidence’ of their impact ... but impact assessments are seldom requested.

SDEs don’t know how to measure their impact, which is having an adverse effect on (a) proving their value to society, and (b) finding and convincing funders that they are a worthwhile investment.
A number of other findings ..... (not in paper – written up separately)
Some unusual findings ...

- Government competing with works programmes
- Making money from doing social good is wrong
- Lack of black environmental entrepreneurs
- Green dichotomy mindset (stakeholders perceive services and products should be heavily discounted or acquired at a premium)
- The term "sustainability" has been hijacked by SMMEs and corporates
- Disconnect around the term ‘impact entrepreneur’
Disconnect around Impact ...

- Investors and funding groups do not see SDEs as being potential providers of “impact” solutions – SDEs are feeling discounted in the eyes of investors.
- Definition of impact entrepreneurship in SA: “individuals who have the greatest potential for multiple job creation, high profit generation, ability to scale quickly, and financial sustainability”.
- Yet internationally it is understood that impact investment finances impact entrepreneurs.
- Term needs to be revisited and re-defined for a SA context - should be amended to take social and environmental concepts into consideration.
Associated viewpoints related to impact perception:

• Traditional entrepreneurs are more likely to be funded than SDEs because their over-riding objectives are to increase revenue and create jobs. Consequently, it is difficult to apply for funding when the benchmark for success is only measured in jobs and revenue.

• Investors are hesitant to invest, as SDEs (and possibly investors) do not seem to know how to measure the impact of social and environmental activities.

• Too many investors and funders are only interested in those entrepreneurs who can make a ‘big impact’, discounting localised entrepreneurs who play a vital role in South Africa’s society, often at a community level.
What do Support Organisations think re impact issue?

- They rated the challenge of impact as their top issue – from the actual definition of impact, the lack of impact assessments, why investors don’t perceive SDEs as being ‘impact entrepreneurs’, to whether SDEs are capable of scaling for bigger impact, and who should be scaling.
Conclusion

- SDEs have been overlooked as a potential linchpin and significant partner in the country’s pursuit of sustainable development and prosperity.
- SDEs are not being acknowledged, supported or incentivised to do the critical work required to meet the nation’s sustainability agenda.
- Because they are neither traditional non-profit organisations nor conventional businesses, SDEs are falling between the cracks, finding it difficult to meet investment and funding criteria or to gain access to legal and business advice.
- As SDEs are one of the few sectors of South African society engaged in innovative and blended activities that advance SA’s stated sustainable development goals, without the contribution of SDEs it is doubtful whether SA will succeed in achieving those objectives.
Thank You

Trashback

Greenpop

Recycle 1st

Trade-mark

E-Khaya

GreenCab
Other findings that did not make it into the dissertation ...

Agree that:

• There is a strong need for SDEs to demonstrate to donors and funders that they are moving toward financial sustainability.

• SDEs depend too heavily on grants and “free” funding and not enough on building sustainable revenue streams.

• It is very hard to reinvest back into the business when the money is needed for survival (e.g. rent, food, clothing).
It is DIFFICULT for SDEs ...

- to compete in South Africa’s marketplace.
- to win business/tenders because of their social or environmental focus.
- lost potential business to individuals who do not have a strong environmental or social focus.
- the work that SDEs do is sometimes diminished by other business owners/impersonators/copiers that have a pure profit motive.

Products and services are recognisably different to other offerings in the marketplace.

UNDECIDED / DISAGREE ON:

- Big business and corporates are aware of the products and services that SDEs can offer.
Mixed responses

- Does society understand the value that SDEs bring to South African...
- Does everybody have the traits and characteristics to become an SDE?
- Do you believe that there are few personal benefits to doing SD...
- As you gain more business experience, is it harder for you to see and...
- Does South Africa have a strongly developed environmental...
- Are there many role models for SDEs in South Africa?
- In the past, have you designed the wrong social/environmental...
- Do the news media regard SDEs highly?
- Does South Africa have a strongly developed social movement /...
- Are you afraid of failing?
- Is it easy to blend sustainable development with entrepreneurship?
- Are you currently meeting your objectives relating to people, planet...
- Are SDEs in South Africa at a disadvantage compared to their...
- Do figures in authority often use their powers to obstruct...
- As an SDE, do you find it easy to turn challenges into opportunities?
- In the past, have you been able to live up to your own expectations...
- Are there heavy expectations and obligations on SDEs to create jobs?
- Are SDEs expected to give more of themselves than general...
- Are there good opportunities for SDEs to start a social...
- Does self-sacrifice form part of SD entrepreneurial work?
- Do SDEs have to face more challenges than general entrepreneurs?
- Is it possible to make good money and make a difference to society /...
- Is the value that you create as an SDE different to that of a general...
- Should SDEs be as innovative as other ‘general’ entrepreneurs?
Social enterprises have a good reputation in South Africa.

The SD entrepreneurial sector is vibrant, dynamic with strong branding.

Society sees SD entrepreneurship is an exciting employment option.

NPO/NGO organisations are often dull and un-business-like.

There are too many NPO/NGO organisations in South Africa that exist for the wrong reasons...
It is DIFFICULT to:

• Decide how fast to grow and still be able to deliver and not compromise on the mission.
• Scale ideas and implement bigger versions.
• Access the right type of capital to fund the various stages of growth.
• Find the right kind of talent that will fit in an SD entrepreneurial business.
• Offer competitive and market-related packages to employees.
• Find a balance between having enough time for creativity and innovation, and delivering on the core requirements of the business.
• Find the right partners for joint ventures or franchising.
• Get the support you need from government.

UNDECIDED / DISAGREE ON how difficult it is to:

• Put succession plans in place.
• Enrol others in a compelling vision.
• Adapt to changing external market/landscape.
• Mentor and coach employees (time issue).
AGREE:

- Confident that you have the required skills and knowledge to make a difference.
- Entrepreneurial education is more important than funding.
- Funding is useless unless SDEs have the skillset and knowledge to make a difference.
- It takes an experienced SDE to coach/mentor another SDE.

UNDECIDED / DISAGREE ON:

- Where to go to get assistance and mentoring, should you need it.
- Sometimes you feel very alone in what you are trying to do as an environmental or social entrepreneur.
- In the past, you have been ill-advised by mentors/coaches/support organisations because they have not understood the needs of a SDEs.
AGREE:

• Definitely consider mainstream business and corporates as a potential route to funding.
• Taking on a mainstream business or corporate as a supporting partner would bring benefits to both parties.
• The social and environmental sector needs “matchmakers” to assist in identifying possible corporate and mainstream business partners.

UNDECIDED / DISAGREE ON:

• You lack the experience and skills needed to partner with mainstream business and corporates.
AGREE:

• Support organisations prefer to support general entrepreneurs rather than SDEs because they believe that general entrepreneurs have a greater potential to provide “impact”.
• There are not enough support organisations on the ground to assist SDEs.
• It is confusing to engage with support organisations as they all have different criteria that have to be met in order to qualify for support.

UNDECIDED / DISAGREE ON:

• In the past you have been turned away by an entrepreneurial support organisation that will not work with social or environmental entrepreneurs at all.
• It’s too expensive to hire a coach / mentor to assist with entrepreneurial activity.