

SOCIAL ENTERPRISE 101



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*“The Government recognises the potential of social entrepreneurship.
... Together, we can make social enterprises grow bigger and stronger
in our economy and ensure that we create long-term benefit for
our rakyat at the same time.”*

YAB Dato' Sri Mohd Najib bin Tun Haji Abdul Razak
Prime Minister of Malaysia

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INTRODUCTION

“What is a social enterprise?”

“Do social enterprises exist in Malaysia?”

“Why should I care about them?”

The MaGIC Social Entrepreneurship team hears these questions every day, and that’s why we created this guidebook. To help other people care about social enterprise as much as we do, and understand why social enterprise is the future of business, social sector, and government practice.

In Malaysia as well as around the world, social enterprise has the potential to solve pressing social and environmental issues, such as education outcomes, access to healthcare, and youth unemployment. We hope that this guide gives you a better idea of what social entrepreneurship is, and, better yet, that it inspires you to join us on our journey.



ABOUT MaGIC SE

The MaGIC Social Entrepreneurship (SE) team is a dedicated unit within MaGIC that seeks to unleash the potential of social entrepreneurship as a driver for long-term societal and environmental benefit.

MaGIC
SOCIAL ENTREPRENEURSHIP

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1

WHAT IS SOCIAL ENTERPRISE?



A social enterprise is an entity that achieves a social mission by using a business model.

Social enterprises combine elements of NGOs and for-profit companies.



For example

Like NGOs, social enterprises also have a **social mission**, which is the social or environmental issue the organisation wants to solve. This includes:

Like profit companies, social enterprises utilise a **business model** in order to bring in profits. This includes:

Increasing the self-sufficiency of the disabled...



...by employing them in Fair Trade coffee production.

Providing affordable sources of electricity to the poor...



...by manufacturing and selling extremely affordable solar lamps.

Reducing unemployment amongst rural youth...



...by providing customised job training & placement programs in the formal sector.

2

COMMON MISCONCEPTIONS



These terms are often misconceived to be social enterprises...



SOCIAL BUSINESS

CORPORATIONS PRACTICING CSR

SOCIALLY RESPONSIBLE BUSINESS

SOCIAL INNOVATION

FOUNDATION

TRADITIONAL FOR-PROFIT

Coined by Muhammad Yunus, founder of Grameen Bank, a social business only repays investors their original investment, and reinvests 100% of its profits back into the business.

Corporate Social Responsibility (CSR) programs are activities led by companies. These companies may be traditional for-profit companies without a social or environmental mission at their core. Outside of their CSR initiatives, such companies are not mandated to create a social or environmental impact.

These are for-profit companies that balance the interests of multiple stakeholders, often times referred to as the triple bottom line: planet, people, and profit. While these businesses may trade socially responsible products and services, they still focus on profits as a primary motivator.

Social innovation is a process that brings about new solutions to social problems. These solutions tend to create more value to society, and are more efficient, effective, sustainable, or ethical.¹

A foundation is a non-profit organisation that supports charitable activities, often through the form of grants. Foundations are often created with money given by individuals, families or corporations.

Such traditional companies' motives are financially driven. They seek to be profit-maximising and give high returns to shareholders.

SOCIAL ENTERPRISE

Alternatively, social enterprises are able to pay their investors dividends from the profits they make, after reinvesting a certain portion back into the business.

Social enterprises are organisations that are driven to make social and environmental impact.

In comparison, social enterprises equally prioritise both social mission and profit.

But a social enterprise's primary mission is sustainable social impact, not shareholder returns.

On the other hand, social enterprises earn their money through a business model.

Social enterprise, on the other hand, is an entity, not a process. Supporting social innovation does not make an organisation a social enterprise.

SOCIAL ENTERPRISE

3

AROUND THE WORLD

Here's a snapshot of how social enterprises are making waves all over the world...



In the UK, social enterprises are estimated to have total annual incomes of £163 billion a year and contribute more than 5% of the UK's **GDP**.ⁱⁱⁱ

Achieving universal access to clean water and sanitation in Asia alone could create a market potential between US\$7 billion to US\$21 billion for social enterprises by 2020, according to Avantage Ventures.^{iv}

Based in the United States, Ashoka has invested over US\$100 million in empowering social entrepreneurs around the world.ⁱⁱ

There are an estimated 20,000 social enterprises in Australia. This number has grown by 37% over the past 5 years. It is estimated that social enterprises contribute 2-3% of **GDP**.^{vii}

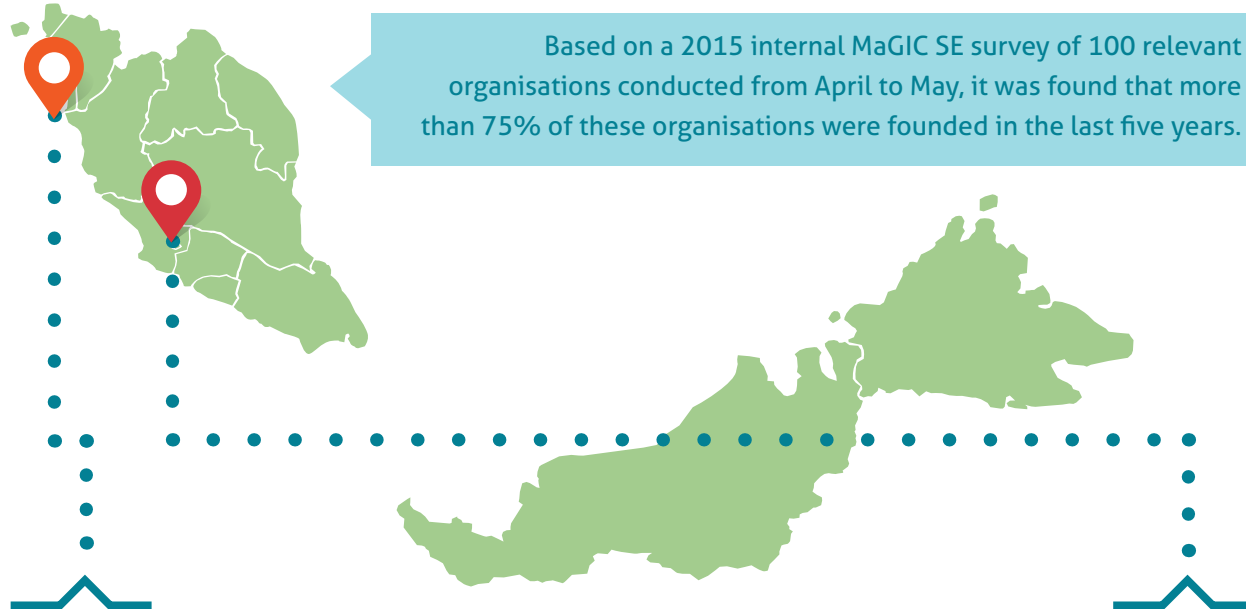
The Schwab Foundation's 2014 Latin America Social Entrepreneurs of the Year award honoured seven social entrepreneurs working in public transport, healthcare, frugal innovation, microfinance, small-scale farm development, and music as a tool for community transformation.^v

According to the UNDP, approximately US\$8 billion has been put into African impact investment.^{vi}

GDP : Gross Domestic Product
UNDP : United Nations Development Programme

Including right here in Malaysia.

Based on a 2015 internal MaGIC SE survey of 100 relevant organisations conducted from April to May, it was found that more than 75% of these organisations were founded in the last five years.



ARUS



Arus is a social enterprise based in Penang that provides students from low income communities and high-need schools with 21st century learning opportunities, such as programming and coding. Income generated from Arus courses are used to sustain its academy courses, aimed at disadvantaged youth from the community. By bringing STEM (Science, Technology, Engineering, and Math) and Maker Education to their beneficiaries. Arus inspires its students to become better learners, encourages them to pursue higher education, and supports them to ultimately escape the poverty cycle.

BIJI- BIJI

Founded in 2012, Biji-Biji is a social enterprise that champions sustainable living and minimising carbon footprints. Through the use of green technology, waste management methods, and creative ways to reuse trash, Biji-Biji aims to inspire a society that is accountable for its waste and leaves a minimal impact on the environment. Biji-Biji charges clients for three services: sustainable builds, product design and workshops. Their builds include self-watering vertical garden installations, bamboo structures, and furniture made from discarded materials.

4

HOW TO SPOT A SOCIAL ENTERPRISE?

	CHARACTERISTIC	DESCRIPTION	EXAMPLE: HEART TREASURES
PRIMARY CHARACTERISTICS	 Social Mission	<ul style="list-style-type: none"> It exists to solve a legitimate issue typically neglected by the public and private sectors. It has a specific target group of beneficiaries, typically those who are underserved by the market. 	Heart Treasures provides employment opportunities to the larger underprivileged community, and particularly the disabled...
	 Business model	<ul style="list-style-type: none"> It generates income and profit by selling products or services demanded by the market. 	...by training and employing them as artisans that use recycled materials to create handmade products such as notepads, necklaces, and bracelets.
SECONDARY CHARACTERISTICS	Typically inclusive, transparent, and accountable to shareholders and beneficiaries	<ul style="list-style-type: none"> Fair compensation and returns Responsible and transparent Inclusive equity Just governance 	All artisans are paid a monthly salary, with plans for EPF and SOCSO contribution.

*Heart Treasures in Kuching, Sarawak is a social enterprise that provides training and employment to the underprivileged.

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COMMON BUSINESS MODELS
FOR SOCIAL ENTERPRISES

I

CROSS-SUBSIDISATION

Realising that there are different payment tiers, the cross-subsidisation business model uses revenue generated from one consumer tier to subsidise the cost for another consumer tier.

CASE STUDY

Name: Community Health Care Centre (CHCC)
in PT Foundation

Area of work: HIV/AIDS Services

Country: Malaysia

Date Founded: CHCC was transformed into a social enterprise in 2013, but PT Foundation has existed as a non-profit NGO since 1987.

How the model works: PT Foundation generates revenue through user fees at the health centre, which covers HIV screening, counselling, and referral services. Those who can afford the full fee of testing subsidise the cost for those who cannot afford to pay.

Mission Statement: "To be the leading community based organization in Malaysia working with key affected populations on HIV and AIDS, gender identity and sexual health, providing information, advocacy, HIV prevention, care and support services."

II

BUY AND GIVE

Also referred to as one-for-one, these enterprises donate one product or service for each product sold.

CASE STUDY

Social Enterprise: Mango Chili

Country: Malaysia

Date Founded: 2014

How the model works: Mango Chili is a modern Thai cafe, serving Thai cuisine at affordable prices. With every meal you purchase, Mango Chili will give a meal to a child in need. It has partnered with Dignity for Children, Trinity Children's Home, and Need to Feed the Need.

Mission Statement: "To impact underprivileged children by giving a child in need one meal every time we sell a meal."

III

MICROFRANCHISING

This model enables entrepreneurs - often from the bottom of the pyramid - to start up small franchise businesses without a significant upfront investment. These enterprises are often combined with microfinance to help the entrepreneur pay off the franchise costs.

CASE STUDY

Social Enterprise: VisionSpring

Country: Bangladesh, El Salvador, India, and South Africa

Date Founded: 2001

How the model works: VisionSpring hires community members to be "vision entrepreneurs," who diagnose minor eyesight problems and sell affordable reading glasses to rural communities that would otherwise have no access to optometrist services.

Mission Statement: "Affordable access to eyewear, everywhere."

IV INCLUSIVE BUSINESS

Business solutions that include the poor or underprivileged in a company's value chain on the demand side as clients and consumers, or on the supply side as producers, entrepreneurs or employees.

CASE STUDY

Social Enterprise: Dialogue in the Dark

Country: Founded in Germany, with a branch in Malaysia

Date Founded: 1989 in Germany, 2012 in Malaysia

How the model works: Blind people are employed at Dialogue in the Dark as tour guides and facilitators. They run tours, exhibitions, and workshops for paying clients who experience what it means to be blind.

Mission Statement: "To facilitate social inclusion of disabled, disadvantaged and elderly people on a global basis."

V DESIGN FOR EXTREME AFFORDABILITY

These businesses are based on a technology or service that has been fundamentally redesigned and has achieved maximum efficiencies so that it is affordable to the poor. These products or services tend to be solutions that are both less expensive and more locally responsive.

CASE STUDY

Social Enterprise: Embrace

Country: United States

Date Founded: 2008

How the model works: Embrace, a US-based company, has redesigned the incubator as a sleeping pouch that delivers constant heat for 4 hours using a removable heating element that can be warmed up by a fire. Whereas baby incubators typically cost US \$20,000 and require electricity, Embrace developed a baby warmer that costs only US \$25 to manufacture.

Mission Statement: "To advance maternal and child health by delivering innovative solutions to the world's most vulnerable populations."

6 THE SOCIAL ENTERPRISE SECTOR LANDSCAPE IN MALAYSIA

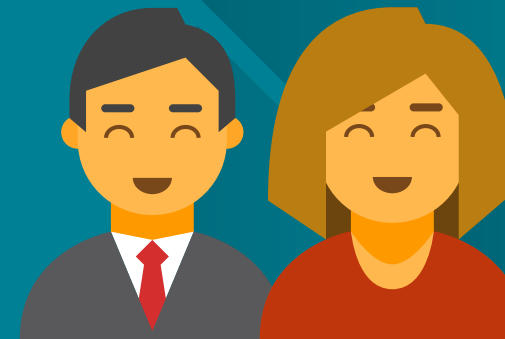
These findings are based on an internal 2015 MaGIC SE survey of 100 relevant organisations.

THE TYPICAL MALAYSIAN SOCIAL ENTERPRISE...



- Is relatively new. The majority of Malaysian social enterprises were founded in the past five years.
- Is yet to break even. Almost half of all social enterprises have yet to consistently cover their costs.
- Gets most of its revenue from B2B (business to business) sales. Over a quarter say their primary revenue came from B2C (business to customer) sales.
- Prioritizes (i) building their business sustainability, (ii) securing additional funding and (iii) seeking expert support & mentorship.

THE TYPICAL MALAYSIAN SOCIAL ENTREPRENEUR IS LIKELY TO...

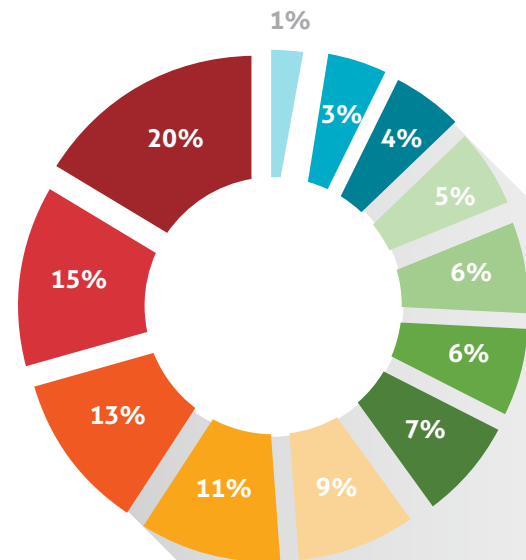


- Be aged 30 and below.
- Have transitioned into social enterprise from the corporate sector.
- Have made the leap into social enterprise because they wanted to work on something impactful to society.
- Be working with a team of five full-time paid staff and seven regular volunteers.

THE LANDSCAPE

Malaysian social enterprise support services, though limited, come from the private sector and civil society. There are about five organisations that provide these services.

Malaysia lacks in financial involvement from investors, banks, company CSR initiatives, and philanthropy. The development of most social enterprises in Malaysia is funded through grants or personal money. Rarely are social enterprises backed by investors. According to the MaGIC Social Enterprise survey, 71% of social enterprises put in personal money to start their venture.



AREAS OF IMPACT IN THE SOCIAL SECTOR

- Community development
- Environment, Sustainability, Energy
- Economic Access & Poverty Alleviation
- Education
- Youth development
- Healthcare
- Others
- Arts, Media & Culture
- Rural development
- Frugal Innovation/Affordable Technology/Innovative Products
- Disabilities
- Water, Sanitation

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EMERGING TRENDS IN SOCIAL ENTERPRISE

The future is exciting and these are some trends we should expect to see:

Increased innovation from the corporate sector

Innovative partnerships between companies and social organisations are allowing companies to reach new markets or create new social impact models that can be expanded and replicated.

Examples of such partnerships include GlaxoSmithKline and Save the Children's new partnership to tackle developing world diseases, and Hindustan Unilever's hygiene products for people living without sanitation in slums in India.

Danone and Grameen partnered together to create Grameen Danone Foods, which produces and distributes low-cost and highly nutritious food to the poorest communities in Bangladesh. 'Grameen Danone Ladies,' a network of microentrepreneurs who are trained and coached by Grameen Danone staff, distribute the food.

Government is paying attention

Recognizing that social enterprises can help tackle social issues in new and cost-effective ways, governments around the world are setting up support systems for social enterprises. Social enterprises will increasingly collaborate with government to solve social issues.

The UK Social Value Act requires bodies who commission public services to think about how they can also secure wider social, economic and environmental benefits. This may result in social enterprises delivering more public services.

Impact investing is gaining traction and continues to grow

Impact investments will grow fast as social ventures increasingly demonstrate their ability to deliver scalable impact with attractive financial returns.

JP Morgan and Rockefeller Foundation estimate that the impact investment sector could reach US\$ 400 billion by 2020.ⁱⁱ

8

CHALLENGES AND OPPORTUNITIES FOR MALAYSIA

Several challenges and missed opportunities need to be unlocked to unleash the full potential of social entrepreneurship. These include:



Lack of institutional awareness

No legal recognition of social enterprise prevents government institutions and market regulatory agencies from effectively supporting social enterprise.



Lack of legal recognition & supportive policy structure

Current legislation caters to organisations that are either for-profit or nonprofit. It does not support blended organisations such as social enterprises, which may have non-profit motives but are engaged in for-profit activities.



Lack of access to quality talent

Entrepreneurship in general is seen as a high-risk and non-viable career option, limiting talent in the sector. Further, professional business and consultancy supports are often too costly for the average social entrepreneur.



Negative public perception & recognition

Public perception often confuses social enterprise with the traditional social and non-profit sectors. This misconception means that social enterprises often struggle to attract investment, charge competitive pricing, and recruit talent. In turn, many commercial and traditional investors avoid the sector.



Lack of access to sizable financial capital

Very little is being done to unlock funding opportunities to start and grow social enterprises. This lack of financial capital access is due to the sector's youth, as well as financial institutions' lack of awareness of investment-ready social enterprises.



Lack of support to grow and scale

The very few social enterprises in Malaysia that have been able to scale are currently held back due to lack of support available. Malaysia is lacking in financial involvement from intermediaries, investors, banks, company CSR initiatives, and philanthropy.

HOW YOU CAN GET INVOLVED

For more comprehensive information on Malaysian Social Enterprise, please download the **“Malaysian Social Enterprise Blueprint: Unleashing the Power of Social Entrepreneurship”** document from se.mymagic.my/publications

For more information about MaGIC Social Entrepreneurship, visit our website at se.mymagic.my or contact us at se@mymagic.my

For more updates, follow us at:



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“We’ve seen social entrepreneurship creates new market and unlocks new capital in other countries, and it’s time we unleash that potential here in Malaysia. When the people prosper, the economy prosper and social entrepreneurship offers us a solution for an equitable and sustainable economy.”

EHON CHAN

Executive Director, MaGIC Social Entrepreneurship