How to Become a For-Profit Social Enterprise (FOPSE)

Corporate Social Responsibility (CSR) as Core

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Foreword

By Manuel Pietra, President & CEO of FreeBalance

All businesses have the opportunity to make a difference in the world. The advent of accessible global commerce has exponentially increased our reach and the potential of our impact. Our brands are strengthened not only by the reputation of the products and services that we provide but by the impact that we make in the countries and communities where we do business. Our actions matter. The altruistic ideals of corporate social responsibility (CSR) are ethically appealing but seem to contradict the profit driven motives of business. This paradox can be resolved by making corporate social responsibility the core of what we do.

Reputed Harvard Business School professor Daniel J. Isenberg's primary focus of International Entrepreneurship has received substantial attention from the global business community. The study defines For Profit Social Enterprise (FOPSE) as a class of business that establishes corporate social responsibility as the organizational platform. Profit ensures sustainability and efficiency. The implications of this approach are profound. The driving force of innovation is changing.

FreeBalance is a FOPSE. We have instituted CSR as core to our mission to help governments across the world leverage robust government resource planning technology to accelerate country growth. FreeBalance CSR programs influence product roadmaps, corporate philanthropy, talent management and brand management. This FreeBalance whitepaper presents a business and ethical case for FOPSE and chronicles our transition to establishing CSR as the centerpiece of our company.

FreeBalance has successfully transitioned to a FOPSE by directly impacting the civil service and the citizens in customer countries. FreeBalance solutions are now used by 25,000 civil servants in Canada and 35,000 civil servants internationally. Our software solutions are being used to manage a global workforce of nearly 1.5 million civil servants and a quarter trillion dollars in annual budgets worldwide. The FreeBalance Accountability Suite has now been implemented in 18 countries across 15 different time zones and in more than 200 government entities at the national and sub-national level.

FreeBalance contributes to economic development in customer countries by forming local partnerships and hiring citizens to ensure independently sustainable implementations. FreeBalance technology accelerates country growth and helps improve governance, demonstrate accountability in public finance and bolster citizen confidence through transparency.

FreeBalance is also committed to supporting children's programs in the developing world. FreeBalance has established partnerships with organizations such as SOS Children's Villages to directly impact the lives of thousands of children. FreeBalance recently had a unique opportunity to make a difference in the lives of over a thousand school children in Timor-Leste. We delivered 1,283 packages of school supplies to the Escola Primária de Fatuada in Dili.

FOPSE embodies the FreeBalance commitment to international development, active participation in the global community and social responsibility. This whitepaper outlines the architecture and business case to help organizations transform to a FOPSE. It is incumbent upon executives and entrepreneurs to consider that CSR be the focal point of their mission. FreeBalance has embraced FOPSE and encourages entrepreneurs to consider this approach and become stewards of social responsibility in the countries where they conduct business.

Preface

On October 15, 2009, *The Wall Street Journal* published an article by Diana Middleton about entrepreneurs looking to start companies with a social conscience.[1] No longer interested in the non-profit route, these entrepreneurs are now looking to leverage for-profit business models. According to Middleton,

> This type of social entrepreneurship – that is, building a for-profit company with a social conscious or linked with a social cause – is becoming increasingly attractive to would-be business founders. The idea is to make money while either directly impacting consumers with its services or funneling a portion of profits to charities. Often, these companies employ people or source resources from economically depressed areas of the world that then also benefit from the charitable donations from the profits.

It's clear that there has been a major shift in business thinking over the past decade. Businesses have a global impact. Not all entrepreneurs are dedicated to becoming rich at all costs. It's a far cry from the words of the fictional Gordon Gecko in the movie *Wall Street*: "Greed is good".

FreeBalance is a For-Profit Social Enterprise (FOPSE) that helps governments around the world leverage robust Government Resource Planning (GRP) technology to accelerate country growth. More entrepreneurs should consider the For-Profit Social Enterprise route; more companies *doing 'good'* should consider this approach.

FOPSE is much more than Corporate Social Responsibility (CSR). In fact, it's more than CSR on steroids.

FOPSE is a commitment where CSR is core.

We had some difficulty in expressing how this core commitment differs from traditional for-profit company CSR programs until we read a landmark study[2] by Harvard professor Daniel J. Isenberg. We knew that we had found our definition.

We're focused on solutions for Public Financial Management (PFM). PFM helps governments improve governance. We have a global model with local delivery – often defined as 'glocal'. We hire local experts for our software implementations which fosters internal capacity building. As our CEO, Manuel Pietra, has stated: "when you have the ability to sell a product that you know is going to improve conditions in a country, you really participate in shaping a nation.[3]"

This whitepaper offered by *FreeBalance* is a result of a series of articles on our blog[4] that received much interest and attention from social enterprises and the broader PFM community. We've edited these articles into a white paper to help like-minded entrepreneurs. It's an emerging and transformational business model. We want to share our experience and foster more discussion.

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# How Can a Company Become a For-Profit Social Enterprise?

What is a For-Profit Social Enterprise? How does it differ from traditional Corporate Social Responsibility programs? How can companies adopt this business model?

FOPSE requires addressing a social issue as core to the company mission

In many ways, FOPSEs differ from Non-Profits in only one respect: profit. There must be a social linkage for FOPSE products and services. FOPSE is not marketing – it requires a real commitment.

FreeBalance GRP products and focused methodology support financial reform and modernization to improve governance, transparency and accountability. Good governance is required to improve development results – across all sectors: education, health, economics, etc.

Figure 1: FOPSE Brings CSR to the Core of Company Mission

traditional CSR   FOPSE
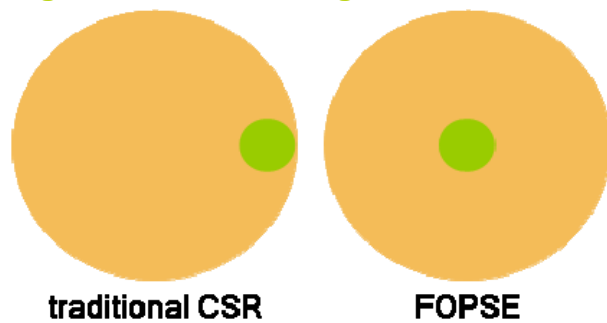
FOPSE requires leveraging the for-profit model to improve efficiency and effectiveness

The for-profit model drives company effectiveness because of the competitive environment. Competition means gives customers choice. It improves products and services. It validates that products and services have value.

FreeBalance operates in a highly competitive field of Government Resource Planning. There are numerous IT alternatives for governments. This environment has driven product features and technology choices.

FOPSE is global in nature

Professor Isenberg suggests that FOPSE companies must have a global footprint. It may be unrealistic to create a global company immediately. But, FOPSE companies focus on global growth. And, there are many tools available to assist organizations to enter global markets.

FreeBalance has customers in 15 countries around the world. We have at least one Ministry of Finance-level implementation at the national level in every *World Bank* region.[5]

Figure 2: FOPSE is a 'Glocal' Model

local   delivery   focus   global

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FOPSE requires local delivery

FOPSE companies do not just extend products and services to address social needs. It is more than changing product labels. FOPSE companies deliver products and services directly to the local customer. They do not place a set of intermediaries between the company and the customer.

We're involved in every *FreeBalance* GRP solution. We deliver it to governments around the world. We hire local staff to provide on-going support. And, we have set up regional development and support centres around the world.

FOPSE requires a customer-innovation approach

Companies traditionally expand globally with existing products and services. These products and services are reluctantly adapted to meet the local context. FOPSE companies question traditional business models and conventional thinking. They do not think about extending markets. They look at the customer context and innovate from there. They must find more ways to engage with customers.

We changed our business model in 2006 to become customer-centric[6] and drive innovation by direct contact with governments. We enabled customers to drive our product roadmap. Our organizational structure was changed. We continue to innovate this ISO-9001/2000 certified process to more effectively meet customer needs. We believe strongly that customer-centricity is the ideal model for companies focused on CSR.

FOPSE means sustainability

FOPSE companies examine the consequences of their actions. FOPSE companies are environmentally conscious. They do not upset the local business ecosystem by putting local entrepreneurs out of business. Their solutions are financially sustainable by customers.

Sustainability is a key theme in Government Resource Planning. In fact, we dedicated our corporate blog to the subject. Many of our customers implement GRP using donor funds. But, as *World Bank* statistics show,[7] many governments are unable to sustain these solutions when the funding ends. We have been able to improve sustainability through product design and capacity building.

How to Justify Corporate Social Responsibility Programs

How can CSR align with corporate goals? Can companies achieve profitability while being socially responsible? How can companies increase shareholder value if committed to CSR?

### The Business Dangers of Ignoring Corporate Social Responsibility

Many companies are reluctant to spend on CSR programs. The return on investment for CSR programs has not yet been fully proven (although one wonders why being socially responsible needs to be proven). Perhaps this is the situation whenever business models begin to change.

If you are looking to encourage your company to adopt CSR, start by looking at figures from *AMR Research*.[8] *AMR* has been reporting on sustainability strategies and Corporate Social Responsibility. *AMR* has made some of their older analysis available at no charge – an excellent step to showing CSR.

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AMR has shown how "corporate social irresponsibility can hurt the bottom line."[9] Social responsibility is becoming an expectation for doing business. Customers are expecting more than a marketing campaign; they want to see depth in social responsibility.

Figure 3: CSR Studies
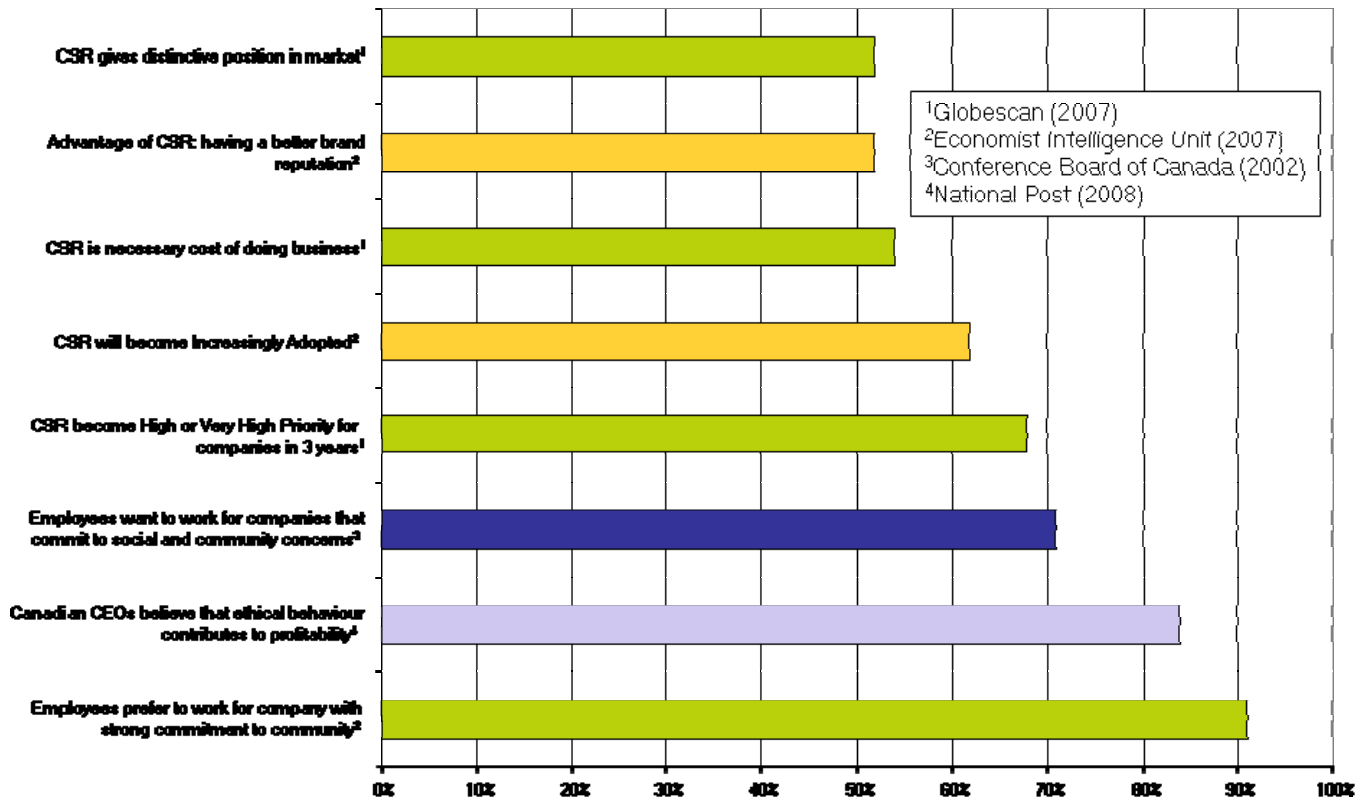
Studies show that Corporate Social Responsibility is a growing trend and provides business benefits

AMR provides an interesting historical perspective on CSR from John Elkington (co-founder of SustainAbility[10]) that describes the four waves of societal pressure.[11] This fourth wave "focuses on creativity, innovation, scalable entrepreneurial solutions, and the role of emerging economies."

It's clearly not your grandfather's social responsibility! This trend affects all companies. The impression is that only large companies can afford CSR. These larger firms are publicizing social responsibility – making CSR an important consideration for companies of all sizes.

The first message for those advocating CSR programs is about how **the bottom line will shrink if your business does not keep up with the trends**.

The Ethical Dimension

There is a notion in corporations that "this is business, not personal," to quote *The Godfather*.

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But business is personal. It's very personal. A business can impact thousands of people. Businesses affect employees.

That's why so many billionaires turn to philanthropy.

CSR helps business leaders to provide social good on the road to billionaire status.

Many observers believe that the focus on financial capital is insufficient to value a company. Companies have social capital – how the business impacts society. And businesses have natural capital – how the business impacts the environment.

This ethical approach helps companies to determine value through triple bottom line reporting: profit, people and planet. This approach helps business leaders to recognize any negative impact. According to the *Conference Board of Canada*, CSR is "a vital part of a long-term, comprehensive approach to business success."[12]

Corporate Social Responsibility: It's a Real Trend

Milton Friedman suggested in 1970 that "the social responsibility of business is to increase its profits."[13] Mr. Friedman believed that this idea had a "lack of rigor". And businesses "cannot be said to have responsibilities, even in this vague sense."

40 years later, the idea has taken hold. This is no longer a fad.

It's true that many look at CSR as outside the ethical dimension of business. Businesses are falling behind in CSR programs.

Globe Scan found that CSR will become increasing adopted in the next 5 years, according to 62% of survey respondents.[14] The *Economist Intelligence Unit* also found increasing priorities for CSR programs in business.[15] **Your business should not fall behind!**

Figure 4: The New Capitalism

Social capital

Natural capital

Financial capital
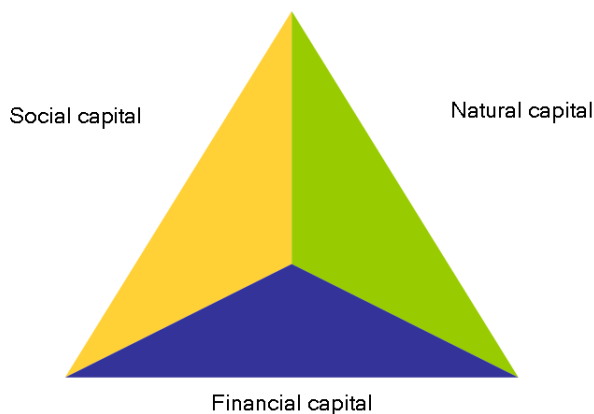
Focus on Wicked Problems

In his book *The Designful Company*, *Neutron* President Marty Neumeier recommends that companies should focus on "wicked problems."[16] This advice is particularly apropos for companies looking to enhance Corporate Social Responsibility, and certainly very important for For-Profit Social Enterprises. A *Neutron* and *Stanford University* poll uncovered the top ten "wicked problems" faced today.[17] Mr. Neumeier defines "wicked problems" as "problems so persistent, pervasive, and slippery that they seem insoluble."

It should come as no surprise that "combining profitability with social responsibility" was found to be one of the wicked problems. **Corporate Social Responsibility should take on difficult problems in order to rally staff to the important cause.**

The Cold Hard Business Case

Recruiting and Retaining Talent

It is no surprise that the *Globescan* report mentioned above found that over 90% of employees were more motivated when working for companies with CSR programs. **The latest generation of workers seems less motivated by money – 'making a quick buck' – than previous generations.** There is a new spirit of combining 'doing well' with 'doing good'.

Increasing Profit

Despite the best efforts of *AMR Research*, there is little hard data that prove that socially responsible companies generate more profit or more net worth than other companies. Yet, many believe that CSR improves company reputation and improves revenue:

o   An *Ipsos-Reid* poll in Canada found that many consumers pay attention to CSR programs[18]

o   The *Edelman Trust Barometer* linked CSR factors to company reputation[19]

o   The *Economist Intelligence Unit* found that having a better brand reputation was the most important benefit of CSR programs[20]

o   The *Conference Board of Canada* suggested that CSR programs can improve efficiencies and spur innovation[21]

There is a significant difference in results among industries. The *Edelman Trust Barometer* found that some industries enjoy better reputations than others. It is clear that many CSR programs appear to be marketing campaigns more than core social responsibility. Some companies are deeply involved in industries that generate pollution, exploit workers in emerging countries or leverage shady financial instruments. It is difficult to trust these companies, so the uptake of CSR programs to generate more business is limited. It should be noted that many companies have turned the corner finding green energy, improving plight of workers world-wide and making financing more accessible.

CSR is a clear business trend. There remains skepticism that these programs can result in improved profitability. That's because CSR is in an early adopter stage. The momentum is there. And the statistics are beginning to prove the value of CSR programs. We caution the reader to recognize that there is a difference between truly being CSR and generating a marketing campaign. Your customers can tell the difference. And, the blogosphere will find out if your program is superficial.

Conclusion

We've provided guidance in this white paper on what exactly being a FOPSE entails, and how executives can push for aligning CSR programs at the core of their businesses. No business wishes to be left behind. As we pointed out earlier, identifying CSR as 'core' is a burgeoning trend with numerous benefits to a company. The business case is clear.

We hope we have enabled other companies to take the plunge. We hope we have made it easier for socially-conscious executives to contribute more effectively to the greater good.

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Notes

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4 FreeBalance Sustainability Blog:www.freebalance.com/blog

5 World Bank regions are: East Asia and Pacific, Europe and Central Asia, Latin America and Caribbean, Middle East and North Africa, Sub-Saharan Africa, South Asia

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[20] Economist Intelligence Unit. (2008, February). *Doing good: Business and the sustainability challenge.* Retrieved from http://www.fsg-impact.org/docs/media/Economist_Intelligence_Unit_Sustainability.pdf

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