

Successful Social Enterprises in Africa:

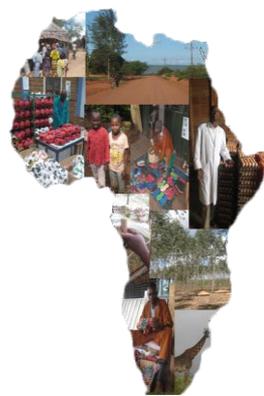
Case Studies of Six Social Enterprises in Kenya

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Abstract

As part of the greater focus on the role of firms and entrepreneurship in development, spotlight has recently fallen upon so-called 'social enterprises'. Social enterprises are organizations that operate in the borderland between the for-profit and non-for-profit spheres. The inherent purpose of social enterprises is generation of social change through commercial means which is effectuated through innovative business model hybrids. At the bottom of pyramid (BOP) in developing Sub-Saharan Africa, the need for sustainable solutions is greater than ever and social enterprises are increasingly in focus as key players in sustainable development. Kenya constitutes a suitable location for the collection of empirical evidence on social enterprises at the BOP, partly because Kenya is a regional forerunner in the promotion of an entrepreneurial business culture, partly because Kenya displays many of the poverty related development challenges endemic to Sub-Saharan Africa. Hence, this paper presents six tales of social enterprises from the Kenyan BOP, who all have managed to pursue a social agenda while at the same time achieving commercial viability. While the cases contribute to the BOP literature as each constitutes solid evidence of social routes to success at the BOP, they also reveal important dilemmas facing managers who each day are forced to make difficult decisions in order to strike the right balance between achieving both commercial and social goals. Thereby the paper also adds significant value to the ongoing discussions in the social enterprise literature. Besides constituting important empirical evidence from the inadequately investigated area of social enterprises at the BOP, the cases provide basis for raising important conceptual issues related to the boundaries of social and traditional commercial enterprises.

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Introduction

The perseverance of poverty, the lack of employment, and the absence of basic welfare of millions mark large parts of the African continent. In their search for effective engines of development, aid organizations such as the World Bank, the UN, and bilateral donors are increasingly regarding private sector development as key to solving many of the continent's ailments (Tvedten et al, 2012). As part of the growing focus on private-sector-driven development, a wide range of business model hybrids has in recent years emerged and they all, in one way or another, seek to combine the efficiency and innovativeness of a commercial enterprise with the provision of developmental goods such as jobs, welfare, opportunities, education, etc. One such hybrid is called a 'social enterprise' (SE). It has emerged from the increasing convergence between the for-profit and not-for-profit spheres, bringing together the two in a marriage between social interests and market efficiency. The purpose of this paper is to present cases that may illustrate the phenomenon of social enterprises in developing countries and provide basis for discussion of the potential as well as the boundaries of the phenomenon vis-à-vis traditional businesses.

The paper focuses on social enterprises in East African Kenya. In terms of pressing development needs, Kenya is no exception to Sub-Saharan Africa: 67% of the population continues to live for less than 2 USD/day and the unemployment and inequality is generally high (BMZ, 2013). However, Kenya is at the same time demonstrating promising economic growth figures of 4.4-5.8% GDP growth in recent years (World Bank, 2013), and the country also has, for Sub-Saharan Africa, relatively well functioning business support institutions and a dynamic private sector with many entrepreneurial firms. It has therefore been termed the 'powerhouse of (East) Africa' (Africanglobe, 2013; Kimenyi & Kibe, 2014). A rising number of these entrepreneurial firms are defining themselves as belonging under the vaguely defined category of 'social enterprises'. The category stretches across a large variety of industries and includes everything from pioneering Honey Care which provides subsistence farmers with income through sustainable beekeeping, to innovative M-PESA, a mobile-based money transfer system which saves people for traditional towering transaction costs. This paper zooms in on six Kenyan enterprises that in their own perception are social enterprises and that have all been developed from scratch in Kenya. The enterprises are Pwani Feeds, KOMAZA, Alive & Kicking, Farm Shop, Ocean Sole, and JUHUDI KILIMO, and they are involved in a variety of industries, from micro-financing to agro-processing.

We will in the following present these cases and point toward challenges, opportunities and dilemmas that face social enterprises operating in a development context: SEs entail a fascinating act of balance

between achieving both economic and social goals. But is it really possible to achieve commercial viability while pursuing cost intensive social goals such as meeting needs of the poor or creating optimal working conditions for employees? Are social objectives and orientations supportive of commercial viability when firms seek to operate in poor developing countries? Or what happens if the commercial orientation undermines the passion and dedication of employees who are motivated by the company's social mission? Overarching these questions is how the social mission and commercial ambition of social enterprises are related in practice.

The paper proceeds as follows: First we provide an account of the theory of social enterprises based on a brief review of the growing social enterprise literature. Then we proceed to present six cases of social enterprises in Kenya which constitutes solid empirical evidence to both the BOP literature as well as the SE literature. Finally, in the closing section we raise a number of discussion points based on the presented cases. The points for discussion are directed at the SE literature and outline perspectives for SEs in a developing country context.

Theoretical context: What are social enterprises in a development context?

SEs have emerged from a convergence between the non-profit and the for-profit sphere (Porter & Kramer, 2011; Alter, 2006). Within the last few decades NGOs have proliferated (Drayton, 2002), competition among NGOs has become fierce (Alter, 2006), and a "rising tide of commercialization" has begun (Dees, 1998). At the same time, companies are increasingly held responsible and accountable for their actions by governments, activists, and the media and, therefore, adopt comprehensive corporate social responsibility (CSR) strategies (Porter & Kramer, 2006). It has been argued that unless the CSR strategy is incorporated into the core strategy of the firm it does not lead to increased value, neither for the firm nor for the local community (ibid). It has also been argued that companies could learn much from NGOs (Drucker, 1989).

A SE combines the social orientation and objectives of NGOs with the market-driven practices of businesses (Dees & Anderson, 2006). It does not do social good as an image improving part of its business or regard it as a means to increase sales. Rather it pursues social objectives and uses business approaches to do so (Gradl & Knobloch, 2010a). It thus intertwines social and economic mission in its DNA (Alter, 2006) and is thereby "*way beyond CSR*" (Hartigan, in Bak, 2013).

By inventing innovative market solutions for social problems, SEs are sometimes first movers in hitherto untested markets, so-called 'blue oceans' (Chan Kim & Mauborgne, 2004). First mover strategies in such markets often entail high costs and risks and these are only amplified in a

developing country market context due to infrastructural inefficiencies, market imperfections, and institutional malfunctioning.

Social enterprises and social entrepreneurship

Within business literature, SEs belong to the global phenomenon called ‘social entrepreneurship’ which “*borrowed from an eclectic mix of business, charity, and social movement models to reconfigure solutions to community problems and deliver sustainable new social value*” (Nicholls, 2006, 2). The social entrepreneurship literature is highly inspired by Prof. Yunus’ pioneering work with micro enterprises in Bangladesh, and Yunus himself is a highly influential figure in terms of both the conceptualization and realization of SEs. He defines ‘social entrepreneurship’ in a broad way, as any innovative initiative that helps people (Yunus, 2008). The renowned Schwab Foundation for Social Entrepreneurship likewise states that social entrepreneurship is “*about applying practical, innovative and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and poor*” (SchwabFound.org, 2013). Essentially, social entrepreneurship strives not only to include marginalized people into the economy, but in an innovative way to create actual, large scale social change (Nicholls, 2006; Alter, 2006). Due to its potential as a driver for social change it has received considerable academic interest and is rapidly developing into an autonomous academic field.

When are businesses social?

Although the terms ‘social business’ and ‘social enterprise’ often are used interchangeably, this paper will use the term “social enterprise” based on the definition made by Brooks (2009). He defines ‘social enterprises’ as “*a socially entrepreneurial endeavour*” (Brooks, 2009, 177). Albeit entrepreneurial, it might not always be generating independent profit streams. Moreover, a ‘social enterprise’ is often used to describe the effort of existing not-for-profits to achieve sustainable impact through income generating activities, or it can refer to the incorporation of an auxiliary activity without concern for social benefit and/or as an efficiency enhancing strategy diversifying revenue streams (Alter, 2006). It can, however, also refer to self-funding businesses (Dees, 1998; Nicholls, 2006). Thus, the term covers a wide variety of business hybrids, more or less commercially viable.

Yunus draws a sharp line between enterprises with an economic objective and those with a social objective; “*We need to reconceptualise the business world [...]. We need to recognise two types of businesses [...]: (a) business to make money, i.e. conventional business, and (b) business to do good to the people, or social business.*” (Yunus, 2006, 1). He moreover states that, “*Any business that can achieve objectives like these [creating social benefit through the provision of products or services, red.] while covering its costs through the sales of goods or services and that pays no financial dividend to its*

investors can be classified as a social business.” (Yunus, 2008, 13). He thus ascribes great value to ownership as well as the lack of dividend to investors in the definition of a SE. Nicholls (2006) complements Yunus’s understanding by explaining that social entrepreneurs typically address areas that the public or private sector has failed to address. This could be institutional support inadequacies, asymmetric information or high transaction costs which altogether can be regarded as failures in the social market of public goods.

The British government is in many ways in the forefront in terms of promoting and supporting SEs (Nicholls, 2006). 10 years ago it created a national body for social enterprises, Social Enterprise UK (SEUK). SEUK does not ascribe great value to the ownership of the company, however, on several other points it agrees with Yunus (see box).

The British Social Enterprise Agency SEUK’s definition of a social enterprise

- Have a clear social and/or environmental mission set out in governing documents
- Generate the majority of income through trade
- Reinvest the majority of profits
- Be autonomous of state
- Be majority controlled in the interests of the social mission
- Be accountable and transparent
- Cover costs in the long-term (though like any business, start-up assistance may be needed)
- Pay reasonable salaries to staff

Source: SEUK 2011 & 2013

Perrini and Vurro (2006) emphasize that SEs create economic value as a mere tool to achieve their social goal. The attitude to earned income is thus “a means to an end” (Boschee, 2006). Similarly, profit is seen as a tool for sustainability (ibid). In this way, SEs move away from grant dependency to become self-sufficient via creation of income streams, and therefore the funding model has been argued to be the primary distinction from NGOs (Boschee, 2006; Nicholls, 2006).

The blended value proposition

This simultaneous pursuance of financial and social return is by Emerson (2003) termed “blended value proposition”. He argues against a black/white portrayal of the world in which there is a trade-off between the social and financial return and argues that both goals can be achieved at the same time. It is not a zero-sum game, “not a

THE SOCIAL ENTERPRISE SPECTRUM

		Purely Philanthropic	←————→	Purely Commercial
Motives, Methods, and Goals		Appeal to goodwill Mission driven Social value	Mixed motives Mission and market driven Social and economic value	Appeal to self-interest Market driven Economic value
Key Stakeholders	Beneficiaries	Pay nothing	Subsidized rates, or mix of full payers and those who pay nothing	Market-rate prices
	Capital	Donations and grants	Below-market capital, or mix of donations and market-rate capital	Market-rate capital
	Workforces	Volunteers	Below-market wages, or mix of volunteers and fully paid staff	Market-rate compensation
	Suppliers	Make in-kind donations	Special discounts, or mix of in-kind and full-price donations	Market-rate prices

Source: Dees, 1998, 60

question of either/or, but rather both/and” (Emerson, 2003, 38). Hockerts (2006) echoes the proposition of a blended value proposition by stating that “Social purpose business ventures are hybrid enterprises straddling the boundary between the for-profit business world and social mission-driven public and non-profit organizations. Thus they do not fit completely in either sphere.” (Hockerts, 2006, 145-146).

This grey zone has led several theorists and practitioners to develop scales to classify and grade SEs. These scales take various forms and sizes, but there is a tendency of placing social and commercial orientation opposite each other, at each end of the scale. As an example, Dees (1998) places all social enterprises on a scale depending on their commerciality, ranging from purely philanthropic charity cases to purely commercial businesses with a primarily financial objective (see box). Many SEs might start at the purely philanthropic stage, but then move towards the purely commercial end.

The blended value proposition means having a double bottom line. This entails several challenges in terms of resources and capabilities. One is related to balancing the social and economic mission. Although the two are intertwined in the DNA, they are not always equal partners (Alter, 2006) and the ability to think and behave like a business whilst working for a social mission can be difficult (Boschee, 2006). However, they will eventually learn that if they want to help the world’s poor, they need to make sure they are not amongst them (Harrington in Boschee, 2006). Thus, the capability of balancing the two missions can be argued to be determinant for a SE to ‘stay on track’ and avoid succumbing to either one.

Another challenge related to the blended value proposition is related to measuring the performance of the social bottom line – this requires different metrics than conventional businesses (Nicholls, 2006). Social impact assessments have therefore become important, especially for social investors who look at the economic as well as social success of the respective SE. Appropriate social impact assessment tools are under development, however, it might take many years of debate and reflection amongst theorists and practitioners until some sort of consensus may emerge as to how to measure social impact (Emerson, 2006).

The social enterprise business model

Altogether, a SE needs a unique combination of resources and capabilities to manage its *raison d’être* – the blended value proposition - successfully. How SEs manage to balance their blended value proposition and how they generate value for their customers may be understood through a depiction and analysis of their business models.

The business model has emerged as a new unit of analysis in business research (Zott et al, 2010; Teece, 2010). It is a system-level, holistic approach to explaining how firms do business and it seeks to explain both value creation and value capture (Zott et al, 2010). Teece (2010) and Demil & Lecocq (2010) argue that a business model defines the way a company delivers value to customers, entice them to pay for the value, and converts those payments into profit. According to Magretta (2002), the profit is the key determinant of success of your business model and you have to be impatient for profit – but patient for growth - when implementing a new business model. Altogether, “A business model’s great strength as a planning tool is that it focuses its attention on how all the elements of the system fit into a working whole” (Magretta, 2002, 90).

Many theorists have suggested components of business model frameworks (i.e. Johnson et al, 2008; Zott et al, 2010). The perhaps widest applicable business model framework is provided by Osterwalder & Pigneur (2010). Their definition of a business model is a model that “describes the rationale of how an organization creates, delivers, and captures value” (ibid, 14). They provide a generic business model canvas with nine components which illustrates how a company intends to make money (see box). This canvas is a highly useful tool in terms of depicting how social enterprises create and capture value.

In overall terms SE business models resemble those of conventional businesses: they generate value through their value proposition (in this case that the blended

<p>Business Model Canvas blocks</p> <ul style="list-style-type: none"> • Customer Segments: the most important customers for whom the business is creating value • Value Proposition: the value that the business creates for its customer segment(s) (which needs are being satisfied, which demands are being met) • Channels: the channels through which the business reaches its CS and how these channels are integrated, efficient etc. • Customer Relationships: the types of relationships that are established with each customer segment, the cost of maintaining them, and the expectations of the customer segment(s) to these relationships. • Revenue Streams: the cash the business generates from each customer segment • Key Resources: the most important assets required to make a business model function • Key Activities: the most important activities required to make the business model function • Key Partnerships: the most important partners and partnerships required to make the business model function • Cost Structure: costs inherent in the business model <p><i>Source: Osterwalder & Pigneur (2010, 15)</i></p>

<p>Characteristics of a social enterprise business model</p> <ul style="list-style-type: none"> • A clear blended value proposition set out in the governing documents, in which the social mission is in focus rather than the generation of profit to owners/shareholder • Social and business activities are synonymous • Hybrid cost structure, at least in the long start-up phase in which patient capital is pivotal • Often operations in highly costly “blue oceans” markets and therefore often first movers • Covering of costs in the long-term through the sale of goods or services and thus no dependence on grants and donations in the long term • Reinvestment of the majority of profits when profitable, either through a “beneficiary ownership structure” in which the beneficiaries receives dividends or through the mere expansion of the business • Autonomy from the state • Accountability and transparency • Properly paid employees without dependence on volunteer forces <p><i>Source: own list based on Alter, 2006; Boschee, 2006; Brooks, 2009; Dees, 1998; Emerson, 2003; Hockerts, 2006; Perrini & Vurro, 2006; SEUK 2011 and 2013; Thompson & MacMillan, 2010a and 2010b; Yunus 2006 and 2008</i></p>

value proposition) which is at the heart of their business model, as depicted by the Business Model Canvas. Social enterprise business models have been argued to, “*impart prototypes for replication, inspire creative approaches for value generation, inform design by establishing operational blueprints, and motivate new methodologies for not-for-profit mission accomplishment*” (Alter, 2006, 205). In other words, business models can be used to attack a social problem, also in environments with high uncertainties and with poor/no market data (Thompson & MacMillan, 2010a and 2010b), and thus understanding SEs from analysis of their business models provides a clear picture of their recipe for poverty alleviation through commercial viability.

Alter (2006) argues that firm’s social orientation can be divided into three main archetype categories, based on the level of integration between the social programs and business activities: *embedded, integrated, and external*. In the embedded model, social and business activities are synonymous. In the integrated, they overlap, and in the external model, they are distinct. Based on our previous account of the SE literature, SEs are clearly embedded models as their social activities are synonymous and not simply overlapping or auxiliary, whereas the integrated and external models are more applicable to ‘conventional’ firms undertaking social activities as a complement to their core competence. Alter (2006) further argues that the target population (client) of embedded SEs is the recipient of the enterprise, either as target market, direct beneficiary, owner, or employee. The embedded archetype model has four ‘operational prototypes’ identified by ‘practice-to-theory approach’ from around the world (ibid): ‘Entrepreneur Support Model’, ‘Market Intermediary Model’, ‘Employment Model’, and ‘Fee-for-Service Model’. Each prototype abstractly illustrates how social value and economic value are created. As the field is still immature, Alter (2006) recognizes that the typology of prototypes of embedded social enterprise business models is not exhaustive; however, as a tool to classify social enterprises we will argue that the typology is highly useful.

Social enterprise models at the bottom of the pyramid

In this paper, we focus on social enterprises in developing countries, more specifically on how social enterprise serve the world’s poorest at the ‘base/ bottom of pyramid’ – the BOP. In recent years, a highly dynamic literature has developed which focuses on the business opportunities at the BOP. This literature has many insights related to social enterprises.

The overarching argument of the BOP theory is that serving the people at the BOP as consumers will ‘eradicate’ poverty (Prahalad & Hart, 2002; Prahalad & Hammond, 2002). Perhaps as a consequence of extensive criticism (O’Reilly, 2009; Crabtree, 2007; Agnihotri, 2012; Wilson & Wilson, 2006; Walsh et al, 2005), the “BOP 2.0” was developed. Here, people of the BOP are seen as co-creators, suppliers and

producers, rather than just consumers (London, 2008; Agnihotri, 2012). Hence, business models in the BOP can be classified according to their approach to the people in the BOP: Business models that *buy from* the people in the BOP, that *distribute through* the people in the BOP, or business models that *sell to* the people in the BOP (Jenkins & Ishikawa, 2009; NFBI, 2009).

Altogether, the BOP discourse has appealed to major multinational companies (MNCs) who have then entered new markets with a social/dual purpose. As a consequence, the notion of an 'inclusive business' has emerged; however, this concept distinguishes itself from SE in important ways. Overall, Prahalad's logic resembles that of SEs: making solutions to social

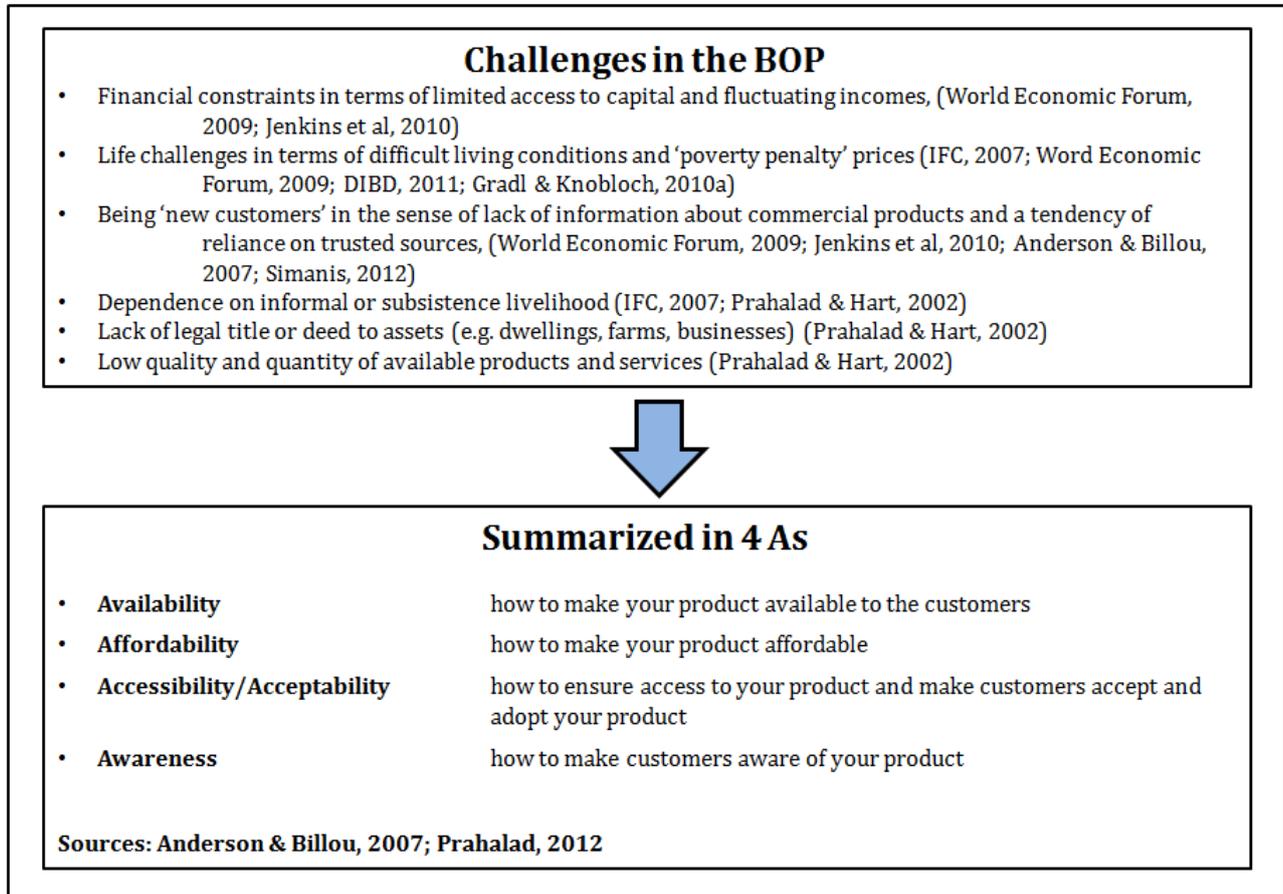
Inclusive business versus social enterprise

The term 'Inclusive Business' was coined in 2005 by the World Business Council for Sustainable Development (WBCSD) and broadly refers to "sustainable solutions that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways" (WBCSD, 2013).

The Inclusive Business discourse builds on Prahalad's BOP theory as it encourages businesses to attempt to incorporate people living at the BOP either as consumers, producers or entrepreneurs (Gradl & Knobloch, 2010a and 2010b; Jenkins et al, 2011; UNDP, 2008) and it continues to be promoted by major international development organizations and foundations such as IFC, Monitor Group, UNDP, and ENDEVA. It is in other words promoting the inclusion of poverty alleviation related objectives into an otherwise conventional business. These inclusive businesses might therefore claim status as social enterprises, although their social focus is a complement to their business activities, not the purpose.

issues commercially viable. However, the SE literature primarily accounts for companies that are *started from scratch* with the single purpose of creating long lasting social change. Moreover, while the BOP literature focuses on the extension of commercial activities to also include serving or employing the poor, the SE literature focuses on enterprises whose main objective is to serve or employ the poor (see box). Nevertheless, the BOP literature is highly significant for the understanding of SEs in terms of understanding the challenges of operating enterprises at the BOP. First of all, it is pointed out that small enterprises seem to be more likely than MNCs to provide market-based solutions to low-end markets (Monitor Group, 2009). Secondly, it is argued that there is a general lack of data and statistics about demand conditions and customer behaviour (DIBD, 2011; Jenkins & Ishikawa, 2009), and therefore there is often a schism between the perceived need and the actual want of the people at the BOP (Monitor Group, 2009). Needless to say, collecting this data is a costly and time consuming process. Thirdly, it is held that as the consumers at the BOP are inexperienced consumers due to former deprivation of a wide product selection (Anderson & Billou, 2007; Simanis, 2012). You thus compete against "non-consumption" (Hart & Christensen, 2002) and you find yourself in an environment with no legacy or legacy mindset - so called 'blue oceans' (Chan Kim & Mauborgne, 2004), which means that the market and the demand often have to be created from scratch (Prahalad, 2012; Chan Kim & Mauborgne, 2004). Therefore, co-creation is a beneficial element in order to ensure

tailoring of the products to their needs (NFBI, 2009; Agnihotri, 2012). All of the challenges at the BOP have been summarized to four A's as depicted in the box.



The 4A-challenges in the BOP as shown above are addressed by SEs which are conceived around an actual want of the people at the BOP. With its entrepreneurial DNA, SEs are well positioned to work in new markets with high degree(s) of uncertainty and as depicted in the box below, empirical evidence suggests that several of the characteristics of SEs, such as patient capital structure and high degree of social embeddedness, are advantageous to success at the BOP. As a consequence, successful SEs are particularly intriguing to investigate in a BOP context and the following cases represent important empirical evidence in this area. Thereby this paper places itself in the cross-field between the SE and BOP literature, adding particularly to the former: with their similarities to 'conventional businesses', and operating in the BOP, the cases reinforces the controversial notion of a 'social enterprise' by questioning the notion both on a practical and a conceptual level. The paper hence contributes not only with empirical evidence to two young and developing fields of literature, but also to the vivid conceptual discussions about SEs. In that sense, the paper altogether aims at providing students within business and development with qualified tools and arguments to participate in the important and intensifying debate of SEs.

Social enterprises are well positioned to tackle the issues at the BOP in Sub Saharan Africa

“To be successful, BOP ventures must be fully conceived as for-profit initiatives.”

(Hamann et al, 2008, 92). From in-depth investigation of 16 Sub-Saharan enterprises, it is concluded that a prototype for success is the BM that is self-sustaining through profits, which delivers social benefits to its consumers through its core activities (ibid). What is more, “Social enterprise tackled on as CSR does not yield the same benefits on the face of this evidence, and may in fact be a recipe for failure.” (Hamann et al, 2008, 92).

It is important to be ‘socially embedded’

when doing business in the BOP (London & Hart, 2004). This is defined as “[...] the ability to create competitive advantage based on a deep understanding of an integration with the local environment [which involves] the ability to create a web of trusted connections with a diversity of organizations and institutions, generate bottom-up development and understand, leverage, and build on the existing social infrastructure. [...] It is the ability to “craft a strategy that relies on resources and knowledge in the external environment as sources of competitive advantage.” (London & Hart, 2004, 364). Social embeddedness therefore implies system thinking and reliance on collaboration and partnerships with stakeholders which is listed as a key to success in the BOP by several authors (Biggs & Shah, 2006; Fafchamps, 2001; Jenkins & Ishikawa, 2009; London & Hart, 2004; NFBI, 2009). The entire eco system needs to be considered and inclusion of the target customers through people-centered innovation is essential (Jenkins & Ishikawa, 2009; NFBI, 2009).

Network and relationship building is pivotal

in Sub-Saharan Africa in order to respond to market imperfections and minimize high transaction costs (Fafchamps, 2001). In the absence of solid institutions African SMEs create private institutional support systems to overcome the market failures (Biggs & Shah, 2006). In fact, networked SMEs have a significantly higher productivity, grow faster than other firms, and are much more likely to receive supplier credit (ibid). Due to high transaction costs and high costs of screening the market for new trading partners, long-term trading relationships are established in which trust is key (ibid). These long-term relationships become collateral and being connected can become a competitive advantage (Fafchamps, 2001). In sum, the success of SMEs in the BOP thus depends on the capability to put together an architecture that maximizes the value from the social embeddedness inherent in the networks and relationships (Biggs & Shah, 2006).

Small enterprises seem to be more successful

at the BOP. From investigation of more than 300 market-based approaches in BOP run by large corporations, small startup enterprises, NGOs and other actors such as governmental agencies and cooperatives in low-end markets of 20 countries, the Monitor Group (2009, 5) found that “[...] new entrants and small enterprises are more likely than large corporations to lead the development of market-based solutions in low-end markets”.

A patient capital structure is an important advantage

at the BOP. “Noncommercial or “soft” funding plays an important role in low-end markets and helped many of the successful enterprises examined in this report to reach scale – even some of those started by large corporations.” (Monitor Group, 2009, 5). The need for patient and/or soft funding in the BOP might be reinforced by the call for flexibility and patience due to the uncertain environment: a long investment horizon is needed and short term return on investment is difficult (Jenkins & Ishikawa, 2009; London, 2009 and 2010; NFBI, 2009) and the ability to follow discovery driven principles is listed as one of six critical success factors in Sub-Saharan Africa by Thompson & MacMillan (2010a, 2010b). In fact, commercial viability is often not reached until after a decade of operation (Monitor Group, 2009).

Six tales of successful social enterprises in Kenya

With the purpose of exploring commercially viable social businesses in Kenya in order to enhance the knowledge about successful local businesses at the BOP, six cases were chosen to broaden and deepen the emerging field of SE literatureⁱⁱ. Kenya was chosen as the location for the case studies. The country does not deviate in overall terms from the general picture of poor, developing Sub-Saharan Africa. A predominant part of the Kenyan population continues to live at the BOP facing the same challenges as its regional neighbor countries. Thereby, the results retrieved in Kenya can be argued to be applicable to the rest of Sub-Saharan Africa. At the same time, Kenya is a favorable location for empirical evidence collection as it is a regional frontrunner in terms of promoting entrepreneurship. It is the largest and leading economy of East Africa (BMZ, 2013) and as it has experienced remarkable economic growth in recent years (World Bank, 2013). Perhaps as a consequence of its highly dynamic private sector, businesses are thriving and social businesses are emerging at high rate compared to neighboring countries. Based on extensive desk research, six of these SEs were identified for further analysis. To ensure a relatively uniform sample, the primary selection criteriaⁱⁱⁱ was that the selected companies had to perceive and define themselves as social, thus having an explicit social vision and mission achieved through financial means.

	Pwani Feeds	KOMAZA	A&K	Ocean Sole	Farm Shop	JUHUDI
General company facts						
Industry	Agro processing: Feed production	Agro-processing: Micro-forestry	Football production	Recycling of waste and production of crafts	Agro-vet franchising	Micro Finance Institution (MFI) within farming
Years of operation	11 (est. 2002)	8 (est. 2005)	9 (est. 2004)	8 (est. 2005)	2 (est. 2011)	9 (est. 2004)
Number of employees (approx.)	130	112	60	85	7	72
Approx. Yearly revenue, USD.	Confidential	1m. (2012)	489,462 (GDP 321,860) (2011)	150,000 (2012)	200,000 (2013, est.)	1.896.050 (financial revenue and revenue from interest) (2012)
Autonomy from state	Yes	Yes	Yes	Yes	Yes	Yes
Transparent accounts	No	Yes (so far)	Yes	No	No	Yes
Commercial viability						
Being an SME	Yes	Yes	Yes	Yes	Yes	Yes
Profitable (has reached its point of break-even or has plans to reach it within 10 years of operations)	Yes	Yes (estimated)	Yes	Yes	Yes	Yes
Positive future outlook: big and/or growing market	Yes	Yes	No	Yes	Yes	Yes

The main financial and sector data of the six enterprises is presented in the table above. Four are located in and around Nairobi, one in the suburban town of Thika, and one in the quiet coastal town,

Kilifi. Four enterprises are related the agricultural sector which is dominant in the Kenyan economy in terms of employment, and two are involved in manufacturing activities. All are concentrating their activities in the local Kenyan market, albeit two enterprises engage in modest export.

Empirical evidence was collected in May 2013 during which the management of each case was interviewed. The length of the interviews varied between two hours to three full days depending on the availability of the companies^{iv}. The Business Model Canvas was used to facilitate uniform collection of data, thereby serving as a platform for the cross-case analysis. During the interviews the Business Model Canvas proved highly useful in terms of ensuring coverage of relevant topics otherwise exposed to neglect.

In the following, the findings of the empirical research will be presented. The presentation of the cases are organized as follows: each case is presented by the same method which consists of an introduction, a description and depiction of its business model using the Business Model Canvas, an analysis of its financial performance, and lastly, a future outlook. With the presentation of each case, key future issues are enclosed for discussion.



Pwani Feeds: Balancing a social orientation inwards & outwards - a walk on egg shells



Top left: Field Manager visiting farmers on weekly check-up

Top right: employees at the feeding mill in Thika unloading trucks

Bottom left: employee in Thika with the collected eggs, ready for transport to Mombasa

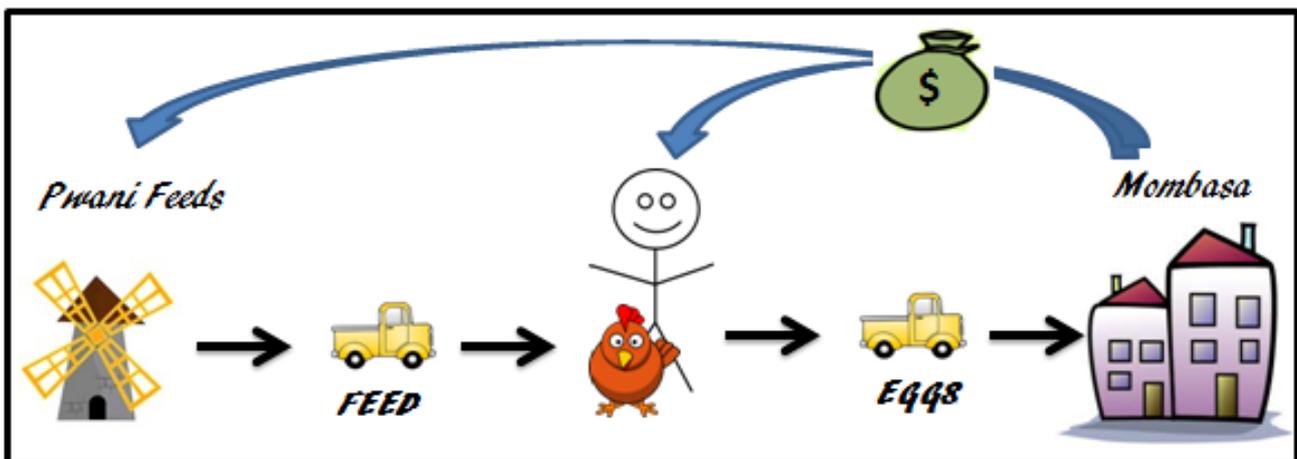
Bottom right: feeding mill factory in Thika

Introduction

Pwani Feeds was founded by Shem and Faith Mwaura in 2002 to improve the livelihood of small scale poultry farmers by including them in value chains. The couple was driven by a motivation of changing the at times desperate conditions of small-scale rural farmers. They had both worked for a number of years in the feed manufacturing industry and had witnessed the appalling situation of the farmers. They were struck by the distant relationship between the farmers and the feed manufacturers who, driven by profit maximization, had no concern for the farmers' standard of living. Due to immense potential in poultry production the couple wished to promote this activity to small-scale farmers and, thereby, contribute to an enhancement of their livelihood; *"The next generation shouldn't struggle the way we did"*, as they put it.

The company's holistic value chain approach brings the farmer and the end-consumer closer to each other and, thereby, seeks to eliminate the exploitation of farmers as well as overcoming infrastructural inefficiencies. Through the provision of affordable quality fodder and the guarantee of ready market for the eggs, Pwani Feeds wished to enhance the income of rural small-scale poultry farmers.

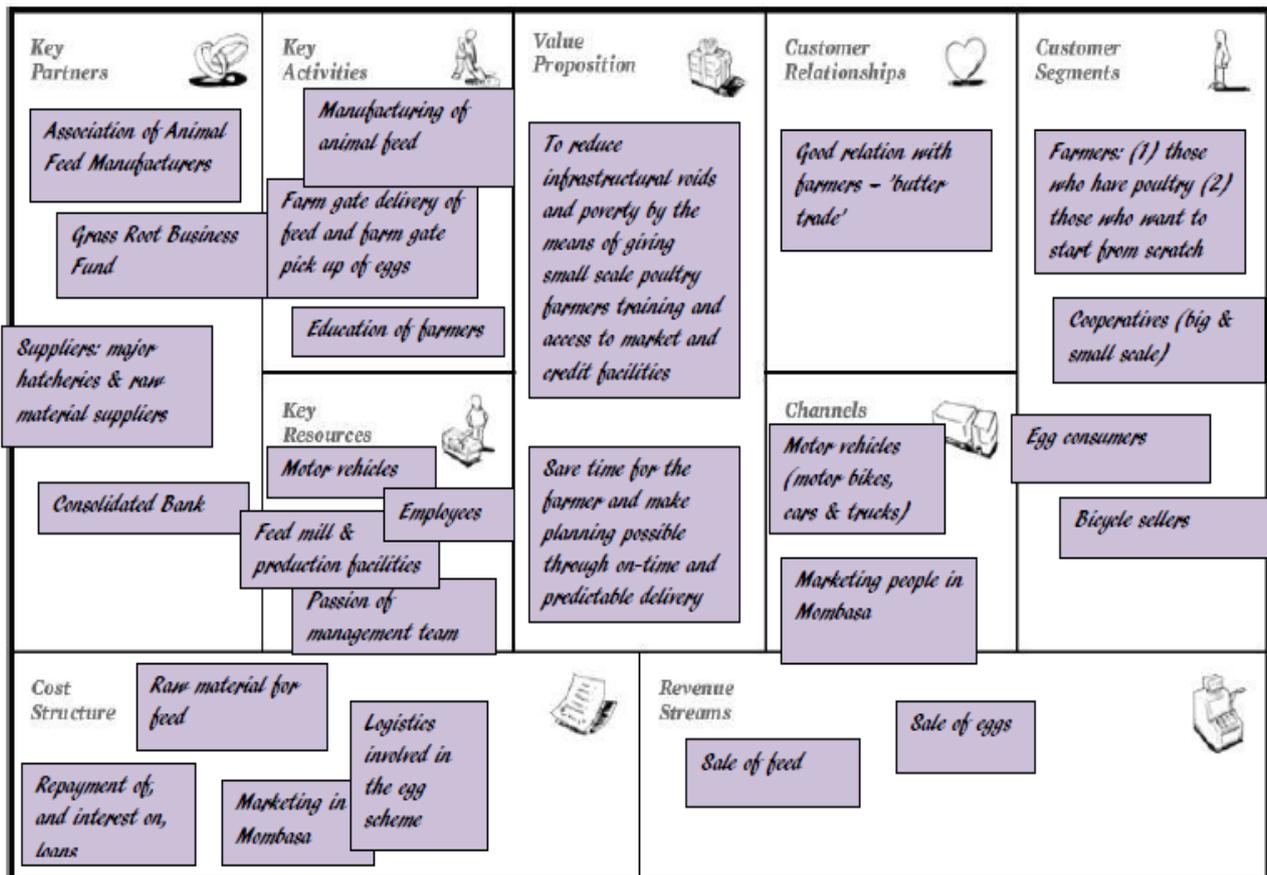
After several years of pilot testing, a feeding mill was acquired close to Mombasa in 2002, and the company was formally established. 1.5 years later another feeding mill was acquired in Thika, close to Nairobi, where many small-scale farmers were situated. The private savings of Shem and Faith financed the startup. The first feeding mill was bought with a loan with the collateral in Faith's other business. Today, Pwani Feed employs 120 permanent employees and around 10-20 casual laborers. The company works with around 3,000 farmers and plans to increase this to 10,000 within the next few years.



The business model

Pwani Feeds produces high quality poultry fodder^v which is timely delivered at farm gate. The predictable on-time delivery saves important time for the farmer and makes planning possible. The eggs - which are otherwise costly or impossible to sell - are collected at farm gate upon delivery of fodder and consequently sold in Mombasa at premium prices. This means that the farmers are able to sell their output at good prices without bearing the transportation cost. On top of this, farm management training from experts is provided to the farmers.

The first step of the business model is the purchase of ingredients to the feed from various suppliers. The second step is to mix it at their production facilities in Thika and Mombasa according to recipes developed by an animal nutritional expert. Once the feeding has been mixed, it is loaded onto trucks that manage delivery as well as the collection of the eggs. With the profit earned from the sale of the eggs, Pwani Feeds helps the farmer establish a bank account which in most cases would have been impossible otherwise. Through a partnership with Consolidated Bank, Pwani Feeds acts as collateral on behalf of the farmers and deposits an agreed amount of the profit from the egg sale. After a few months of saving, the farmer can get a micro loan without collateral and, thereby, expand the business and enhance the livelihood of his/her family.



Logistics represents the biggest cost of the company. In order to cover this, Pwani Feeds sells fodder to large poultry farms and has recently ventured into selling chicks as well as cages for battery hen. The former is sold to any farmer with the interest of starting or expanding their eggs/poultry production while the latter is sold to established poultry farmers.

An important element in the business model is the close contact and the fostering of long term relationships with the farmers. Besides the regular individual checkups which ensure that the output matches the expectations, technical training and after-sales services (such as assistance with animal health) are provided. Pwani Feeds arranges seminars for a mix of potential and existing customers on how to do poultry farming and their marketing is primarily done through word of mouth. This has altogether resulted in high trust and loyalty from the farmers, which Pwani Feeds describes as determinant to their success.

Performance

	Revenue	Gross profit	Profit/Loss from operations	Financial costs	Net profit/loss
2009-2010	13%	-11%	-128%	60%	-171%
2010-2011	49%	96%	[going from loss to profit]	556%	[a reduction of loss of 35%]

Pwani Feeds is an SME and the Thika factory broke even after only one year of operations as local farmers quickly adopted its services. The company's financial data is confidential; however, 2011 marks an increase of 49% in revenue and 96% in gross profit, which led to an operating profit. Despite an increase of 556% in financial costs the company managed to reduce its net loss with 35% in 2011, and thus the financial condition overall improved from 2010. The positive development has been supported by a recent patient capital loan from Grassroot Business Fund, which has been provided together with pro-bono consultancy services. This has helped the company significantly, especially in terms of internal governance.

Future outlook & challenges

Besides the promising financial figures as mentioned above, the potential market is immense. Small-scale farmers are numerous, and the potential to convert them to poultry farming is vast, according to the company. Thus, the future market seems secured.

While a short-sighted mission is to be able to buy in bulk, which will be significantly cost reducing, the long-term vision is scaling the business model. However, financial resources are needed for this

expansion. The plan is to acquire hatcheries in order to deliver chicks to customers rather than simply feeds. Eventually the idea is to internalize this part of the value chain in order to reduce costs both for themselves as well as for the farmers. The management team acknowledges that the scaling of the business model requires a holistic approach to offset the challenges in the agro-industry. This in turn requires both stringent financial management as well as patience – compromising the social goals is not regarded an option although it would entail considerable cost reductions. Although patience for growth is inherent in its

business model, Pwani Feeds believes it is a ‘win-win’. The concern for the small-scale farmer means that unless the farmers grow, Pwani Feeds will not grow. “*We grow together*” as Shem puts it.

Key future issues for Pwani Feeds

- The founding couple explained how their employees do not always understand the social value of the company. The reason for this becomes obvious when observing the working conditions at the feeding mill in Thika. One group of employees works in 8 hours shifts, physically loading 70kg bags from/on trucks. Another group ensures the right mixing of ingredients into the feeding mill. This is done in a nerve-wracking noise and dust-filled air, with no earmuffs or masks. This lack of social value for the employees represent a stark contrast to the social value created for the small scale farmers and one may ask whether the discrepancy between the external and internal value will become counterproductive reputation wise and even become a direct barrier when/if attempting to obtain social capital.
- The founding couple explained how it is not until recently that they realized that they can be termed a SE and that this may in fact mean access to social investor funds as well as pro-bono services. A challenge will be to explicitly stress the social value of the company in order to receive the needed funds for the expansion.



KOMAZA: Micro-forestry as the sustainable road to poverty alleviation at the BOP?



Top left: Eucalyptus trees at the Demonstration Farm

Top right: Demonstration Farm sign

Bottom left: Nursery at the Demonstration Farm

Bottom right: Employee getting ready for delivering input to farmers

Introduction

KOMAZA was founded by Tevis Howard, an American neuroscientist conducting research in Kilifi, North of Mombasa. Tevis was doing research as a neuroscientist in Kilifi when he was struck by the severe poverty of the country. After several years in the country, his reflections about and experiences with poverty came together in a 'moment of obligation' when he decided to contribute to the alleviation of poverty. Unlike many others who start a business in their field of expertise, Tevis applied an analytical approach to the, to him, new issue at hand: deep poverty in Kenya and across Sub-Saharan Africa. After a year of focused research, he found that sustainable micro-forestry had never been tried before. Such forestry would not only help the individual subsistence farmer, but also the environment. Compared to other crops, tree has one important advantage: when processed, it becomes highly valuable, especially since the value is almost exponential to the width. KOMAZA was therefore conceived in 2005.

The idea is to exploit the arid otherwise unused land of subsistence farmers for the planting of dry-resistant trees^{vi} which can be harvested and sold with a significantly added value. KOMAZA adopts a holistic value chain approach by providing the input (seedlings) to the farmer and guarantees ready market for the output: when time comes (after 6-10 years) KOMAZA will harvest the trees, process and sell them. While the trees grow, the farmers will only need to do weeding in the first years.

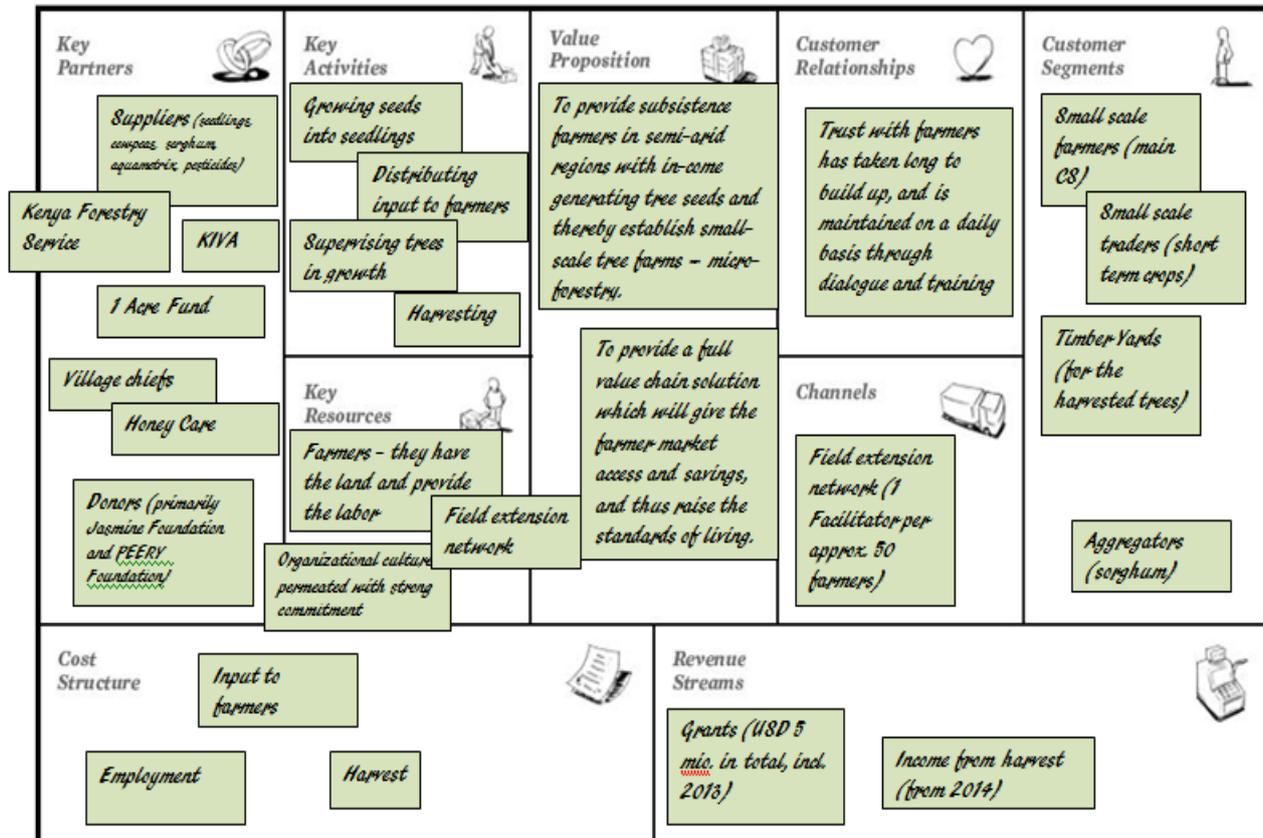
With his convincing idea of micro-forestry, Tevis managed to initially obtain more than USD 1m. funding from foundations and organizations to develop the business model, and by the end of 2012 KOMAZA had planted more than 1.1m. trees at more than 4,600 farms on 2,200 acres. The plan is to add 2,000 farmers each year over the next years without growing geographically. This will saturate one rural area and thus have a profound impact on this area. Subsequently, the scaling up to other regions in Kenya will be commenced. Eventually the hope is to reach across Sub-Saharan Africa. KOMAZA today employs 112 people.

The business model

The management of KOMAZA is based in the HQ in Kilifi, however, the operation team is placed in 12 office locations in the region. These serve as meeting points, stores, and advertising bases. The field extension network has been carefully designed to ensure close contact with the farmers. Five Field Managers oversee 13 Field Officers who in turn oversee around 70 Facilitators. The latter group is in closest contact with the farmer – one Facilitator oversees approx. 50 farmers. They do marketing and recruitment of new farmers as well as supervision of existing farmers. Each farmer is visited once a month. Tevis explains how the embeddedness of the employees in the local communities has meant

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significant trust from the farmers. For instance, it is doubtful that the farmers would have given their land and the labor to the disposal of KOMAZA had the relationship been purely commercial. This trust has been determinant for success.



KOMAZA requires at least 1/2-3/4 ha per farm, the labor to do the weeding, the security, and the basic maintenance of trees (KOMAZA does the spacing and pruning). The farmer will pay a commitment fee of KSH 200 (~13DKK), which is symbolic in size. Nevertheless, the fee serves to combat the ‘aid dependency syndrome’ and creates a feeling of ownership. Moreover, a Memorandum Of Understanding (MOU), which involves the chief of the village, is signed to ensure that the land is not disputed (common issue in Kenya). The actual planting takes place afterwards. Land clearing is done by the farmer, line spacing by KOMAZA, and hole digging and preparation by the farmer. When the rain approaches, the input^{vii} and seedlings are delivered to the farmer.

The harvest will start year six from planting, in 2014. Rather than harvesting all trees at once, the plan is to harvest 1/6 of the trees at each farm every year. This will not only ensure a stable yearly income for the farmers, it will also mean that the trees can be harvested with increasing value: eucalyptus trees re-grow 2-3 times after having been harvested and they re-grow 50% faster as the roots already

exist. As the value of the wood is exponential to the width, the profit which is split 50/50 between the farmer and KOMAZA will rise for every harvest.

Performance

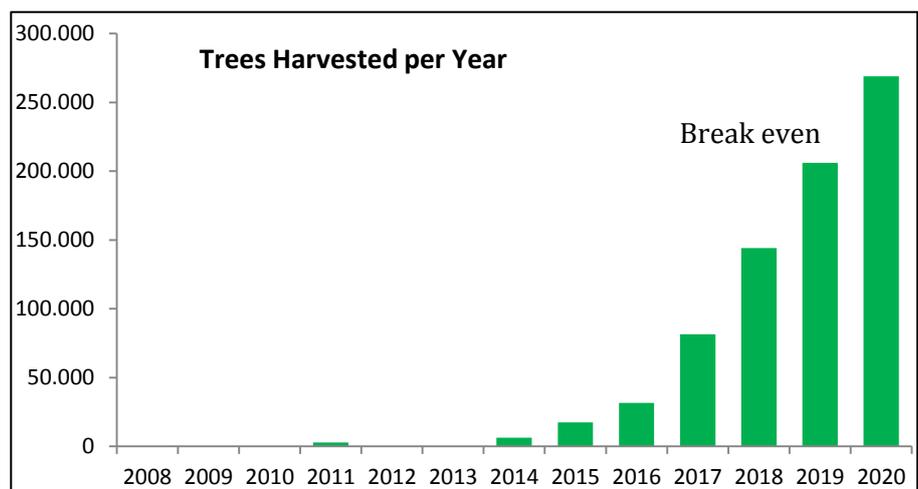
Although KOMAZA is a SME, its business model is still being tested as it has yet to generate revenue. However, with the convincing business model, the company has succeeded in raising 5m. USD in grants since 2008 (incl. 2013). Although the company is 100% financed by charity today, it has an explicit objective of becoming a billion dollar business, independent from donors. Until then, the plan

Basic figures	
• Cost of planting a tree:	1USD/tree
• Sales price:	25-30 USD/tree
• Cost for KOMAZA to sell the tree:	Up 40% of the sales price
• Profit:	60% of sales price, split 50/50 between farmer and KOMAZA
• Trees planted/farm (½ acre)	256
• Mortality rate	~30%
• At ½-acre farm, approx. 180 trees will survive, of which 30 will be harvested each year	

is to stay at or above 1m. USD grants per year for the next three years. During the transition towards profitability, debt might increase – it is currently USD 750,000. The strong need for soft capital made Tevis move to the US in 2012 to raise funds. The plan is to continue the activity until revenue from trade augments. Once commercially sustainable, KOMAZA will be able to raise capital from commercial investors. The profit will still be regarded as the means to the achievement of the social objective. The beneficiaries are the stakeholders, not shareholders, and the intention is for it to remain this way.

With modest calculations, the breakeven point and donor independence will be reached in 2019.

KOMAZA will never stop raising capital when it grows. Trees are seen as capital investment rather than operational expense. In terms of the future market,



this seems to be secured as the number of subsistence farmers in arid areas is enormous in Kenya, as well as in Sub-Saharan Africa. KOMAZA’s high ambitions match the number of farmers in need – the

company will not cease as long as more farmers can plant trees. However, changing Kenya (and the world) takes time and KOMAZA is patient for growth.

Considering the facts above, one can question KOMAZA's definition as both "SE" and "commercially successful". However, considering the realistic growth plans, its planned break-even point in six years' time, and its ability to raise funds to reach an SME size, one can argue that it qualifies as a SB in transition to a for-profit business.

Future outlook & challenges

Looking ahead, the company faces several challenges. It has practiced exceeding generosity by providing farmers with seeds/seedlings and purchasing output at above market prices. It is often perceived as a handout-giving NGO rather than a business – a reputation it will have to change.

Key future issues for KOMAZA

- The transition from an NGO entirely funded by donor funds to a for-profit company represents a great challenge.
- While KOMAZA is arguing to have a unique business model which may change the life for potentially millions of farmers, some may argue that the company is pursuing contracting farming as KOMAZA is the only provider of inputs and the buyer of output. This puts the company in an unfavorable situation as the only market player for the poor subsistence farmers.

Moreover, it is severely budget constrained which is closely linked to dependency on donor funds. Altogether, KOMAZA is still an experiment– but if it works, it might very well change the world.



Alive & Kicking: Footballs for social change in Africa - Need to have or nice to have?



Top right: Footballs at production facility in Nairobi

Top left: Stitchers at production facility in Nairobi

Bottom left: Stitchers at production facility in Nairobi

Bottom right: Footballs at production facility in Nairobi, ready for delivery

Introduction

Alive & Kicking was started in 2004 when late teacher Jim Coban OBE from the UK visited Tanzania and saw the need for proper footballs. He believed that all children should have the right to a good quality football and founded A&K on the belief that Africa is able to produce its own quality footballs with its own resources.

The first stitching centre of A&K was established in Nairobi in 2004 with a DfID grant, and support from Elton John Aids Foundation and the English Football Association. It became commercially sustainable in 2006. A&K also has a stitching center in Zambia, which became commercially sustainable in 2011 after four years of operation, and it recently opened a production facility in Ghana.

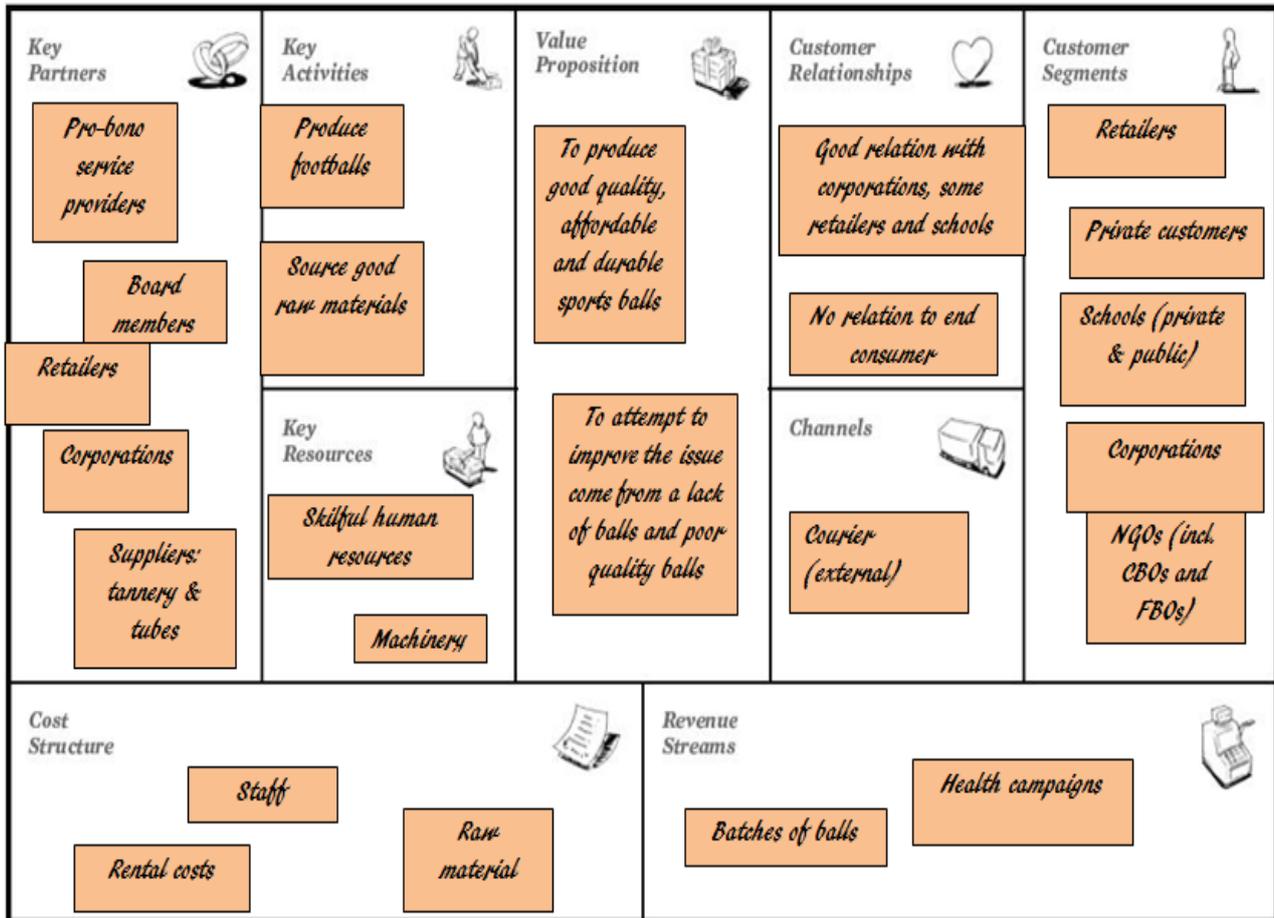
A&K Kenya has five employees in the management team, 44-45 stitchers in production, and another 10 in operations. Demand, however, determines the number of employees: 90 stitchers were employed when UEFA placed a big order with them. The balls are sold to major retailers in the region (primarily the local supermarket chain Nakumatt) on confinement agreements, to major corporations (mostly as a part of their CSR budget) and to private consumers. Moreover, the balls are given to public schools as a part of health awareness campaigns, as the schools do not have the resources to purchase the balls.

The business model

The business model of A&K resembles that of a conventional production company – the only distinction being the determined focus on decent employment creation in the BOP and health-awareness-raising campaigns.

In regards to the former, the company considers the sustainability of the employment it creates as important. The salary given to the workers is at least twice that of competitors, and A&K moreover ensures that good labor standards and health standards are met (however, it has not been ISO-qualified). The cost structure thus reflects the intransigent focus of the employees. As labor conditions are not compromised, higher costs are inherent, but at the same time this constitutes an important motivation for the employees. In regards to the latter, A&K terms itself a SE due to the job creation and the health campaigns, and as there are no shareholders receiving dividend. It is a social enterprise which “*uses business practices to pursue our charitable objectives*” (aliveandkicking.org).

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The social aspect has meant that the company is able to sell not only quality balls, but also a compelling story. This gives them a competitive advantage. However, the increased production costs is a challenge, especially since the legal framework in Kenya does not distinguish between commercial business and social business. However, its proclaimed status as a SE has meant access to social startup capital. Especially the 24 months startup grant from DfID was pivotal to the development of A&K as it enabled strategic planning, investment in proper inventory, and entrance into the formal economy from day one (most competitors are in the informal economy). Moreover, being social helps attract important resources such as volunteers and pro-bono service providers, such as KPMG who has been providing significant support since the inception.

The health-awareness-campaigns are entirely financed by sponsors which means that A&K does not incur any additional costs (besides the working hours) and thus their financial performance is only slightly affected by the campaigns. They are conducted based on local market knowledge from CBOs (community based organizations) and requests from local communities. The campaigns typically last 4-5 weeks and are usually a combination of sports tournaments and health testing and information. On average they are conducted once a year at around 40 schools reaching about 5-10,000 children. Altogether around 50,000 young Kenyans have been impacted by the campaigns.

Performance

A&K is an SME that has reached its breakeven point.

	2009	2010	2011
Trading income	354,990 (USD 546,684)	301,853 (USD 464,854)	285,034 (USD 438,952)
Cost of sales	306,815 (USD 472,495)	208,412 (USD 320,955)	196,316 (USD 302,327)
Gross profit		93,441 (USD 143,899)	88,718 (USD 136,626)
Fixed costs		91,660 (USD 141,156)	87,490 (USD 134,735)
Operating profit/(loss)		1,781 (USD 2,743)	1,228 (USD 1,791)
Charitable income Includes support from the		34,611 (USD 53,301)	36,826 (USD 56,712)
Charitable expenditure		34,159 (USD 52,605)	37,226 (USD 57,328)
Net surplus/deficit		2,233 (USD 3,439)	828 (USD 1,275)

Referring to the table above, A&K Kenya yielded revenue of GDP 321,860 (USD 495,664) in 2011 including charitable revenue, which represented 12,9% of the total income generated. The charitable income as well as expenditure remained stable from 2010 to 2011 and the expenditures only exceeded the income slightly in 2011. The net surplus decreased 63% to USD 1,275 in 2011, which reflects decreasing demand.

A&K views and measures success on the amount of sold footballs. The more balls sold, the more jobs are created and the more children can play with quality balls. Market creation thus has a backward effect on the number of jobs created. They currently sell 40,000 footballs a year, in total they have sold just above 200,000.

Future outlook & challenges

Despite reasonable financial figures of A&K Kenya, securing future markets and demand remains a great challenge. Hitherto, the company has moved from targeting public

schools, which did not have the expected funds, to corporations who gradually needed to reduce their CSR budget due to the repercussions of the financial crisis. Now the main target group is retailers, but competition against low cost producers from Pakistan, where according to A&K around 80% of the world's footballs are produced, remains tough. Therefore, like any other business, A&K is constantly looking for new markets. Their business model has proved commercially sustainable; however, ongoing continuous scaling will depend on the ability to unlock untapped demand around the world.

Key future issues for A&K

It can be questioned whether A&K is a social enterprise at all. When asked how the company defines itself social, the answer is 'creation of decent jobs at the BOP'. When asked how they distinguished themselves from a conventional business the answer was better labor conditions than competitors. When asked which certifications or standards they adhered to (e.g. ISO), the answer was none. Moreover, the health campaigns were included in the definition of being a SE. Noticeable, these were not initiated from the beginning, but were added on at a later point in time. Thus, compared to other social enterprises, the company was not started around a difficult social objective which had to be made profitable. What is more, the targeted areas of the health campaigns are completely arbitrarily selected and depend entirely on the generosity of corporations. When asked if these campaigns could be regarded as CSR, the answer was that CSR has to do with publicity and the efforts of A&K do not. Lastly, challenges ahead were framed in terms of sales, not in terms difficulties in conducting health campaigns and alike. A&K's major future concern is the market – whereas the rest of the cases have almost unlimited markets as their customers are people in the BOP.



Ocean Sole: Building capacity for sustainable recycling of flip-flops



Top left: drying area of flip-flops. Production facility in Nairobi

Top right: playing ground made by the leftovers from the recycling of flip-flops. Production facility in Nairobi

Bottom left: gluing flip-flops for crafts. Production facility in Nairobi

Bottom right: washing of flip-flops. Production facility in Nairobi

Introduction

In Karen, the fertile and green Nairobi neighborhood named after Karen Blixen, Ocean Sole^{viii} is located. The old villa not only contains the head office and rented office space, but also the mere production unit as well as a gift shop, a playground, and a café. The company arranges daily tours for visitors through the production, which for the children ends at the playground made from recycled flip flops and for the adults at the gift shop or the café.

The idea of Ocean Sole was born by Managing Director and Founder Julie Church in 2005. As a marine conservationist working for the World Wildlife Foundation (WWF) in Northern coastal Kenya, she was appalled by the vast amount of flip-flops getting washed up on shore, disturbing marine life. This gave her the idea of collecting the flip-flops and recycling them into crafts facilitating employment of local unemployed women as workforce. When the WWF placed an order of 15,000 key chain hangers the business took off. Hence, Ocean Sole was started with the value proposition to create environmental and social value through the collection and recycling of flip-flops and through environmental awareness raising in local communities as well as amongst end consumers. Embedded in this value proposition lies education of the public as well as nudging their behavior into using recycled products.

The startup phase was funded by WWF, but Julie realized that in order to have a long lasting impact she needed to convert the project into a profit-earning venture. A small production unit was therefore started in a garage in Nairobi. It soon expanded, and Ocean Sole today employs 50-80 people in production and 10 in the management team. However, due to increased demand, Ocean Sole expects to increase employees in production to around 120 within the next year. It has acquired the adjacent land to accommodate the growth.

The business model

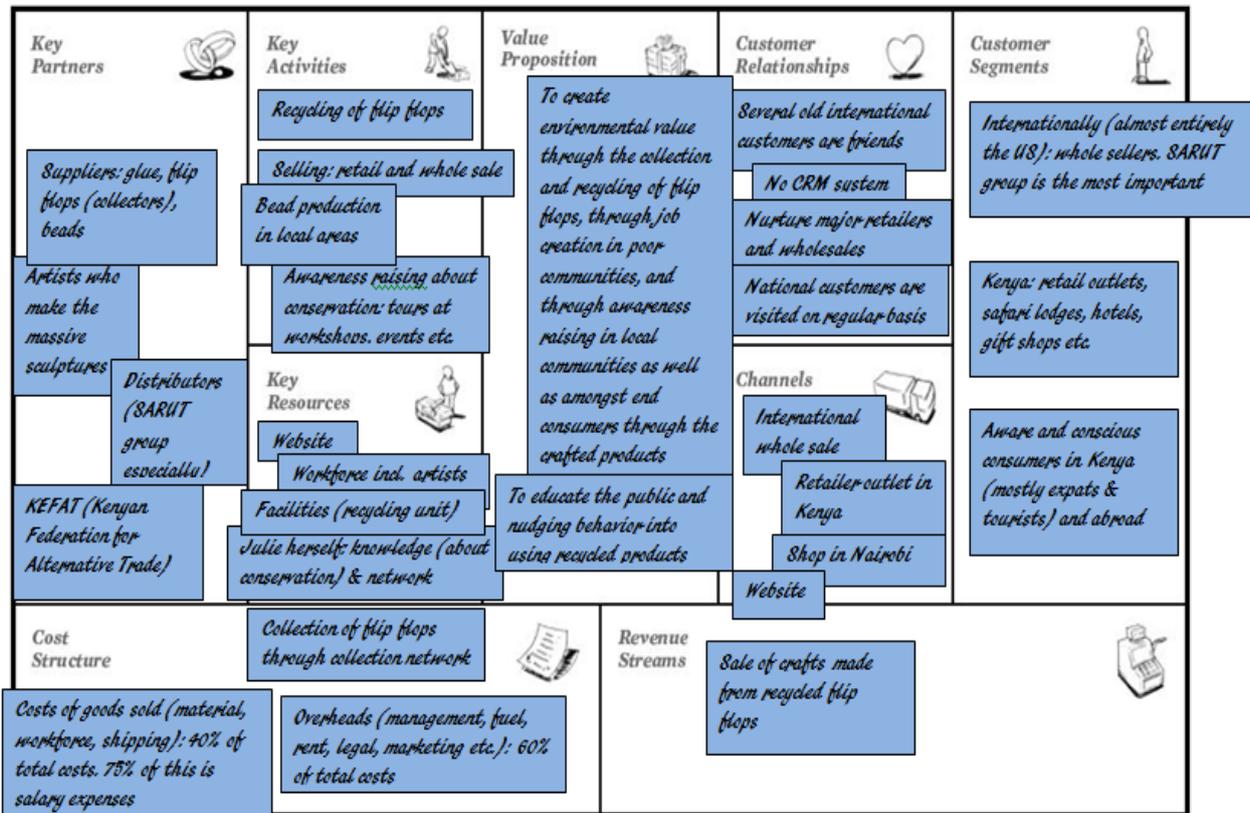
The business model of Ocean Sole is effectuated through three main phases: collection of the flip-flops, recycling, and sale. In terms of collection, Ocean Sole currently has three local collectors of flip-flops. The collectors are not formally employed, but are paid by the amount they collect; between 20-30KSH/kg (~1-2 DKK) depending on whether they wash the flip-flops themselves and on whether they store it. In terms of recycling, the collected (and washed) flip-flops from beaches and riverbanks are transported to Nairobi where they are converted into crafts following the procedure depicted below.

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Lastly, the crafts are sold in shops in and around Nairobi, retailer outlets in Kenya (confinement contracts), and to international whole sellers, through the website. In 2013, international customers will absorb 80% of total sales, of which USA accounts for 90%.

Inherent in the business model is the focus on a good and healthy working environment for the employees. Ocean Sole offers comparatively high

salaries, longer holidays, paternity and maternity leave, free lunch and chai, and it covers the medical expenses, just to mention a few. The customer segments of Ocean Sole constitute aware and conscious



consumers with sufficient purchasing power in Kenya and abroad. This segment is very limited in Kenya, which illustrates how a social mission can actually represent a disadvantage.

Raising awareness about ocean conservation is a pivotal concern of Ocean Sole. Therefore, the company attempts to incorporate its environmental concern into its products and sales channels. Tours at the workshop have proved efficient in terms of sales – when visitors realize the value of Ocean Sole’s products they are more inclined to purchase them. Moreover, The Ocean Sole Foundation has been established to gather and distribute knowledge on environment conservation. The company and the foundation are set up under a holding company.

Performance

Ocean Sole is an SME and expects to reach profitability in 2013 and a profit of USD 100,000 in 2014^{ix}. It collected 48,000 flip-flops in 2011, 81,600 in 2012, and estimates to collect 192,000 in 2013, and 384,000 in 2014. The positive development can be attributed to investment in marketing and production during the last two years as well as internal restructuring. Previously, Julie financed all expenses (with no salary and no loss), practiced word of mouth marketing and ad-hoc management. In 2012 a private contact gave a life-saving patient capital investment injection, and at the same time, a CEO was appointed, a competent management team was set in place, and the company was re-branded through a business plan and strategy.

Holding company	
Shareholders: Julie Church and a private investor.	
Ocean Sole Flip Flop Recycling Company (OSFFRC) Prior: UniquEco Design and FFRC CEO: Des Shiels; MD: Julie Church	Ocean Sole Foundation Founder & MD: Julie Church
Purpose: Recycling. Manufacturing.	Purpose: Research, awareness raising, knowledge sharing through a global marine network.
Future purpose: Ideally they would like to establish a production unit in Latin America to be close to the American market and one in Asia to serve that part of the world. Three production hubs around the world would be essential.	Future purpose: The profit from Ocean Sole goes into this. At the same time it serves as a venue through which people can donate money. The foundation will work intensively with communities (e.g. beach clean ups or alike) and build partnerships and networks. It strives at researching a better and quicker way to break down rubber and lobby politicians in order to strengthen environmental regulation.

Commercial sustainability is pivotal as it is seen as a means to achieve the company’s mission; however, it is a tough struggle, especially since the company must adhere to the same rules and regulations as conventional businesses.

Future outlook & challenges

Although the numbers are promising, challenges remain. Ocean Sole faces difficulties in obtaining social capital funding as it often falls between two chairs: it is often not regarded as a SE due to the environmental focus, but it is not regarded as a conventional business either due to the social focus. Moreover, securing cash flow - especially in the absence of assets - is pivotal as Ocean Sole operates in the uncertain Kenyan market. Nonetheless, the overall future looks brighter than it has done for a long time. The transformation into a full-scale whole sale company is seen as remedy to the current teething troubles of the company. The abundance in stranded flip-flops, both on beaches and in riverbanks, combined with great demand for the crafts, are conducive for continuous growth. The company 'simply' needs to solve the bottleneck of capacity constraints.

Key future issues for Ocean Sole

- Ocean Sole is undergoing a challenging transformation from "Julie's private project" to a properly run social enterprise. The company has taken on general formalization procedures, internal managerial restructuring, new pipeline procedures, new customer relationship management procedures, re-branding, and much more. This has meant that Ocean Sole will witness a profit for the first time in 2013. Although the future looks bright the ability to scale the capacity with the required speed is a great challenge: a new craftsman in the production needs a thorough training, and thus scaling up and down in the number of employees is a time consuming and costly process.
- Ocean Sole is clearly driven by a true environmental and social concern and by a passion to convert the vast amount of waste on beaches into useful crafts. As a SE, Ocean Sole distinguishes itself by not having received soft start up funding (until recently) and by coupling the environmental and social focus without compromising on either one. However, the environmental focus actually constitutes a barrier in terms of obtaining social capital funding, as the company is often not understood as a social enterprise, but rather an 'environmental enterprise'.
- Julie's strong passion has previously drowned sustainable financial management. It is a continuous challenge that the company stays focused on its economic bottom line, and that it realizes that if it wants to help the environment and the poor, it needs financial viability.



Farm Shop: Franchising the way to profitability at the BOP



Both pictures are from newly opened franchised agro-vet shops.

Both pictures are from www.farmshop.co.ke

Introduction

Farm Shop was founded in 2011 by two renowned social entrepreneurs, Madison Ayer and Farouk Jiwa, who attacked a well-known social problem with a commercial solution. The problem is an overall inefficient agricultural value chain in which poor subsistence farmers are caught in a web of poor infrastructure, lack of access to markets, insufficient knowledge, and inaccurate information about production inputs as well as technology, lack of transparency on market prices, and powerful informal middlemen (so called “agro-vets”) who themselves often are poorly educated, but who nevertheless rip farmers for profit. There are around 10,000 agro-vets shops across Kenya, most of which are run like informal street kiosks. Therefore, a vast upgrading effort is needed to educate these dealers in the needs of the farmers (e.g. seeds and chemicals) in order to overcome the present immense market failures.

The solution of Farm Shop is to leverage the existing network of agro-vets by franchising them. Thereby, the value proposition is to increase the productivity of subsistence farmers by providing high quality products, services and information through franchised agro-vet shops. To support this value proposition Farm Shop undertakes management of warehousing, inventory, and logistics. Moreover, comprehensive community education programs have been designed to help the farmer understand the products, services, and methods, which in turn stimulate the demand for the local franchise. This altogether aims at improving the transparency and efficiency up-stream and might eventually entail a disruption of the Kenyan agricultural supplier network. This would help subsistence farmers substantially.

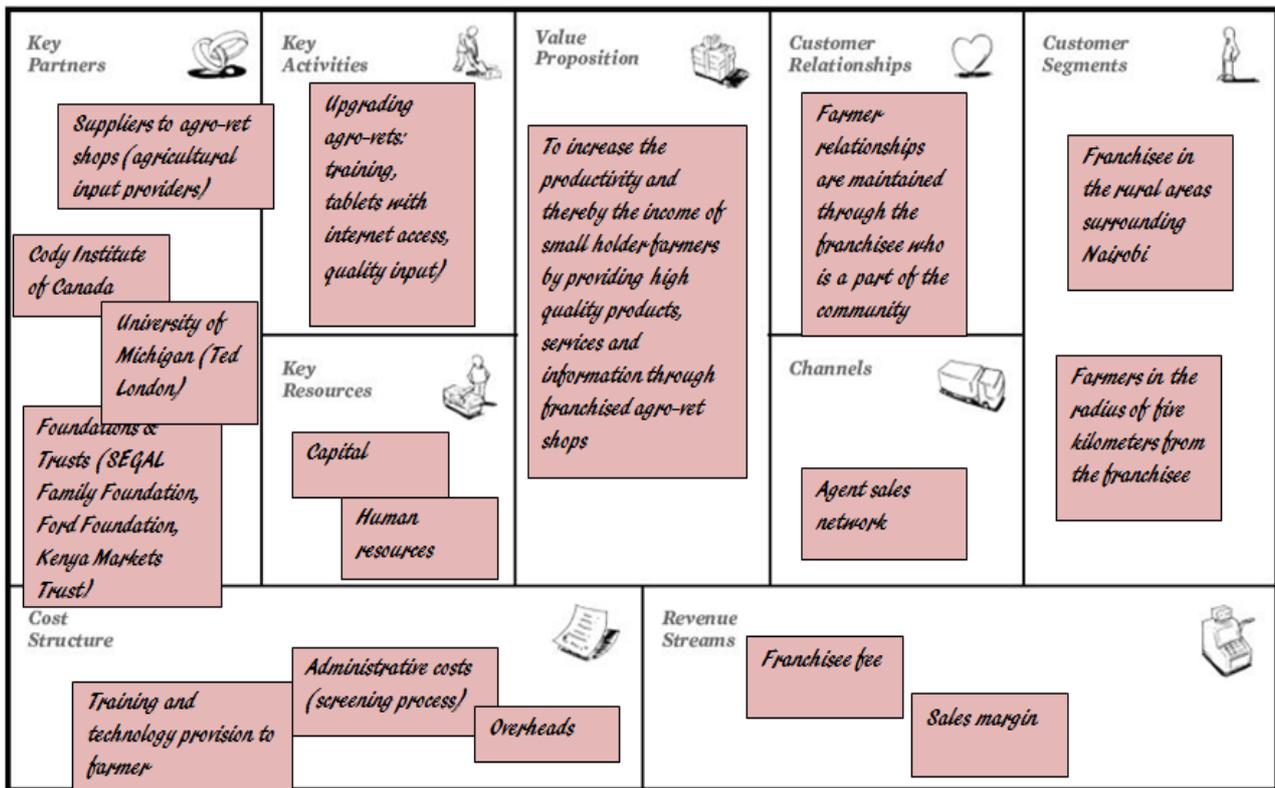
The starting point has been the areas around Nairobi where the HQ is based. The plan is to expand to the entire country, and after that beyond the borders. At the time of the research, Farm Shop had opened six franchised agro-vet shops and was opening another six in the following two months. The most successful had taken only three months to break even. The plan is to have 20 shops open by the end of 2013. Farm Shop employs seven full time employees in operations and in the office. Besides this, Farm Shop employs four commission-based agents who undertake the search for potential franchisees and, moreover, are responsible for the contact with existing franchisees.

The business model

Farm Shop spends 12 weeks for the franchisee screening process in order to carefully assess the capabilities of them. The selection criteria of existing agro-vets in brief include assessment of the purchasing power, the willingness to work, interest in the concept, and financial discipline. It is, moreover, important that the franchisee has a (social) status in the community in order for the shop to become a popular hub for everything new and innovative. The selected franchisee then takes a loan

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through Farm Shop of approx. USD 4,000, with a repayment period of 24 months, for working capital and inventory for which Farm Shop provides an interest rate at competitive market rates (15% flat interest rate). The franchisee is subsequently capacitated to provide farmers with the right products and services through training (sales skills, business skills etc.), tablets with Internet access, pricelists as well as a branded shop.



The cornerstone in a franchise concept is the assurance of a certain standard. Farm Shop is no exception, and the wish is to position itself as a chain of clean, modern, and professionally managed shops. Moreover, the company strives at facilitating a network between the franchisees. The carefully selected products range from basic fertilizers to advanced irrigation systems and solar products. Demo days, training sessions, and farm visits are arranged as a complement to ensure productivity enhancement. Other services delivered to farmers include soil testing and spraying.

Farm Shop enjoys several benefits of the franchising model: low overheads and no need for daily management, which saves time and costs. On top of this, the company leverages local community knowledge of the franchisees, which has proved highly valuable.

Performance

At the time of the interview Farm Shop was not yet a SME; however, it is realistic to assume that the number of employees will soon exceed 10. In terms of profitability, Farm Shop expects an operational

breakeven in 2014. 2013 is expected to give revenue of USD 200,000 with a 17-20% growth margin^x. Farm Shop was started by grants of just above USD 1m., raised through the network of the founders. At the time of the interview approx. half had been spent which means 24 months remained to prove the sustainability of the model. Each franchise is still regarded as a prototype: the business model is constantly tested, evaluated, and adjusted. Impressively, it took three months to break even for one franchisee and Farm Shop is now replicating this model for new franchisees.

From the inception, Farm Shop has been realistic about its capabilities and prepared for mistakes. This honest, open, and flexible attitude to doing business in the BOP generally characterizes the management team, which ensures that the business grows responsibly through a two-tiered revenue stream consisting of sales margin and franchising fee.

Future outlook & challenges

While starting with inputs and related support services, Farm Shop plans to guarantee subsistence farmers an output market too. Moreover, the company aims at incorporating financial services into its business model. The ultimate goal of the business model is to create well-managed one-stop shops which provide multiple services and products to smallholder farmers.

Agro-vets typically serve farmers in a radius of five kilometers, and Farm Shop projects that each agro-vet serves around 500 smallholder farmer household, or 2,500 individuals. As the three-year target is 500 franchisees, Farm Shop aims at reaching

250,000 households (1,250,000 individuals). It expects the shops will create 6,500 non-farm jobs in rural areas (partneringforglobalimpact.com, 2013). Although it might be too early to judge the success of Farm Shop, the company has provided promising results so far. Its business model represents a refreshing approach to the general BOP market and hope to the millions of Kenyans who are involved in agriculture.

Key future issues for Farm Shop

- In terms of the concept of a SE, Julio was very critical: he does not think that it makes sense to talk about SEs at all. He does not like the “fanfare” about SEs as he states that the opportunities do not necessarily translate into demand. Many corporations believe that people in the BOP want “need to haves” when in reality they want “nice to haves”. The consumption patterns in the BOP, thus, resemble those of the developed world. Coca Cola and cigarette companies, and perhaps ice cream and cell phone companies, are in Julio’s mind some of the only properly successful SEs in the world as they have managed to gap the infrastructural voids and reach the people in the BOP.
- The franchising model is quite new to the BOP market. It provides certain specific advantages such as low overheads and no need for daily management (time saving). Moreover, unforeseen advantages have been that suppliers have been more receptive and that Farm Shop actually constitutes a refreshment to the industrial foundation. The farmer has to meet certain criteria and, moreover, have a start-up capital to be considered a franchisee. However, the question is whether there are no disadvantages with this model.



JUHUDI KILIMO: How to remain social when commercializing a micro-loan bank



Pictures of clients: rural farmers.

All pictures are from www.juhudi-kilimo.com

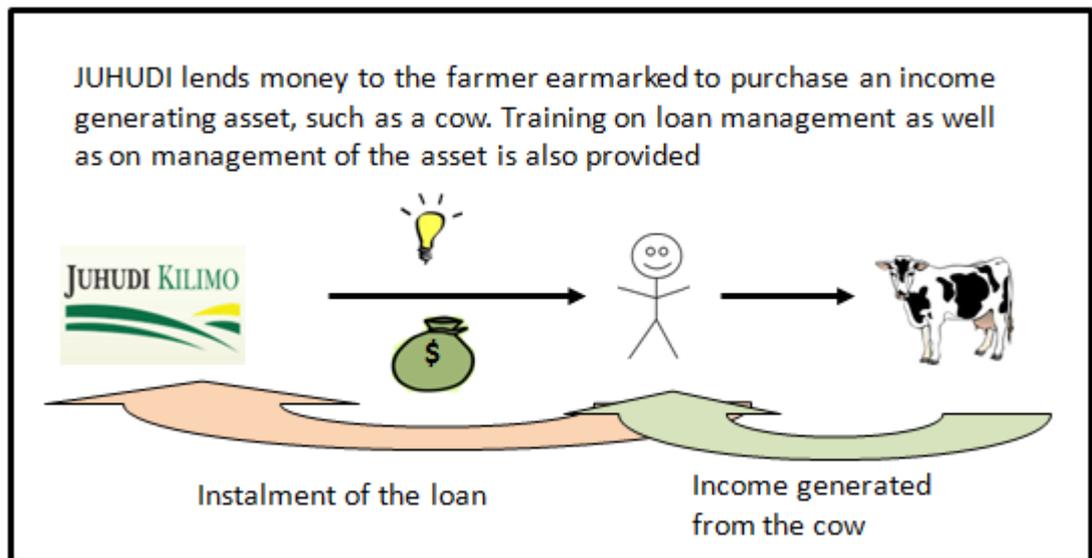
Introduction

As most micro finance institutions (MFIs) in Kenya cater for urban or peri-urban areas and as many banks seldom covers rural areas, the rural population is generally un-served by financial institutions, and therefore find themselves caught in a vicious circle of poverty. JUHUDI KILIMO (JUHUDI) was started in Nairobi in 2004 with the desire to fill this gap by exclusively targeting this part of the population despite the comparatively higher risk and costs involved. It was as a project under K-REP Development Agency, an NGO that performs research and product development for the microfinance sector.

The innovative solution of JUHUDI is an insured asset-financed loan for rural small-scale farmers. That is, a loan earmarked for the purchase of an agricultural asset. The income generated through the asset helps farmers not only repay the loan, but also improve farm yields and, thereby, food security. Being dependent upon their asset to repay their loan, farmers are incentivized to optimize the output of this asset. The loan is provided together with training in business and installment management. Repayment is facilitated through loan groups of at least 10 farmers with the inspiration from the loan

groups of Grameen Bank in Bangladesh (Yunus, 1998).

Asset financing differs from conventional micro credit, which can be used for consumption



or emergency funding. Moreover, MFIs usually demand existing collateral in case of default, whereas JUHUDI can demand the newly acquired agricultural asset, thereby avoiding making the client poorer than the starting point. However, JUHUDI takes comprehensive measures to attempt to prevent such events, among other things through continuous dialogue with the farmers. The defaulted farmers will be able to learn from the experience, which they can transfer to a new loan. Due to high repayment rate(s), the cost-effective advantage over conventional loans enables JUHUDI to offer lower interest rates, staggered payments, and longer repayment periods which altogether means better terms than offered by conventional MFIs. Altogether, JUHUDI establishes and maintains a cash flow as well as loan

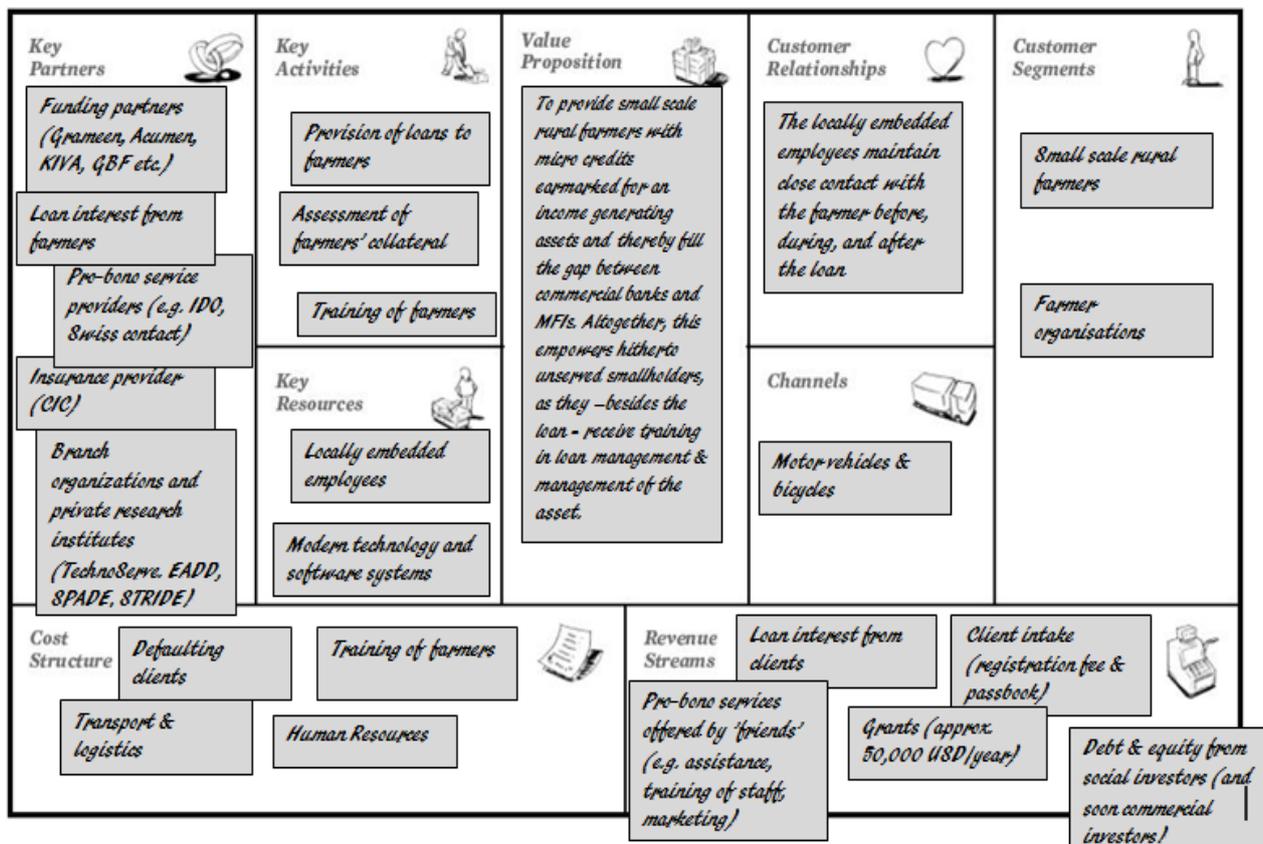
Successful Social Enterprises in Africa

collateral of rural farmers and, thereby, “*eradicate poverty in our own small way*” as CEO Nat Robinson puts it.

JUHUDI currently employs 72 employees; however, the company is expecting to reach 100-120 within 2013. It has 18,094 clients of which 10,494 are active. 48% of them are women. JUHUDI was recognized in 2011 at the World Economic Forum with the Social Entrepreneur of the Year Award and in 2012 by the Citi Foundation’s Microfinance Awards in Kenya.

The business model

Besides its HQ in Nairobi, JUHUDI has four regional offices, eight field offices and four satellite offices. While the regional offices coordinate the efforts of the field and satellite offices, the field offices undertake operational work – marketing, disperse of loans etc. The satellite offices only have one employee and serve to test new areas. Once a satellite office reaches 500 clients and has at least KSH 12m. (USD 135,086), it will qualify for a field office. The minimum number of clients per field office is 1500.



JUHUDI does marketing in rural areas and ask farmers to approach it in groups of minimum 10 people. They are provided with a grace period of two months to organize themselves and to receive training

and information about the loan opportunities. If they decide to join (as a group), each client will pay a registration fee of 400KSH and a passbook fee of 100KSH (approx. 7 DKK). Moreover, each person will have to register with the local community based organization to ensure their identity, to adhere to legal requirements and to guarantee that decisions in the group will be done in a democratic manner. A chairman for each group is democratically elected. This person will be in touch with JUHUDI on a regular basis.

There is no limit to the size of the loans; however, clients are required to save 15% of the loan as cash collateral. This amount is saved over the two-month training period. The cash helps giving responsibility for the loan and encourages a culture of saving. In order to heighten the repayment rate several actions are taken. Firstly, through direct contact with, and 1-2 visits to, the individual client JUHUDI first of all assesses the capabilities as well as the collateral of each loan taker prior to the formation of the groups. Secondly, JUHUDI offers training to the clients, both in terms of loan management and management of the asset. Unlike other MFIs, JUHUDI does not require previous experience in the respective area of farming that the loan finances. Needless to say, these 'start ups' are quite costly and risky, which is why JUHUDI has engaged in a vital partnership with the insurance company CIC to secure the farmer and thus secure JUHUDI in case of default. JUHUDI files the insurance application on behalf of the farmer and pays an advance to the insurance company, which is then repaid by the farmer to JUHUDI through monthly installments together with the actual loan. Lastly, JUHUDI is in constant dialogue with the individual loan takers and groups during the repayment, which ensures ability to take the appropriate actions in case of unexpected events. Currently less than 4% of the loans are at risk.

As an inherent part of its business model JUHUDI is making an effort to ensure that farmers are connected with good input providers (such as dairy cow companies, poultry feed companies and alike) related to their asset. The aim is to increase partnerships with input providers in order to be able to better serve the farmers in the future.

Besides the mere business processes, modern technology is pivotal to the business model of JUHUDI. Serving rural areas is costly and transport is a major cost. Therefore, JUHUDI embraces new technology and constantly attempts to renew its efficiency through technological enhancements. In this process the American "B-Corporation Certification"^{xi} has made a great difference as discounts on software systems have enabled JUHUDI to expand into new rural areas without extra cost. The company has made its field officers paperless by providing them with tablets that ensure live information about prices and alike, thereby reducing the administrative burden of both clients and employees. JUHUDI uses mobile technology to collect payments and feedback, and MIFOS (Micro

Finance Open Sources) software systems ensure an effective and up to date customer database as well as accurate information on repayments.

Performance

JUHUDI became a limited company in 2009 and broke even in 2012. It took USD 5m patient capital and a lot of unpaid work. Due to the training and support mechanisms inherent in the business model, the average on-time repayment rate has been stable around 95% during/over the last five years. This is reflected in the finances:

Fiscal year	2010	2011	2012	2013 Q1
Financial revenue	376,429.92	440,882.21	1,063,684.6	n/a
Revenue from interest	334,557.02	451,712.81	832,667.38	n/a
Net income after taxes and donations	-227,968.22	-195,557.69	-16,275.99	26,139.67

All financial information is available online at www.mixmarket.org, and are in USD

Besides a positive development in the revenue, the net income after taxes and donations reaches profit in the first quarter of 2013. Moreover, the company has managed to increase its return on equity from (162.33%) in 2012 to 40.77% in the first quarter of 2013. At the same time, however, the debt to equity ratio (total liabilities/total equity) increased from 48.28 in 2011 to 116.01 in 2012, which means that the debt has increased significantly.

The renowned American MFI KIVA turned out to be a critical patient capital investor in the start-up phase. In 2009 they allowed JUHUDI to raise money through its platform, which meant patient capital of USD 20,000 per month. The 'approval' from KIVA meant interest and investment from other social investors such as the Acumen Fund, Rockefeller Foundation, and the Grameen Foundation.

JUHUDI's vision is to reach 100,000 active clients by 2015 and despite a downfall in early 2013 due to uncertainties in relation to the election, JUHUDI is optimistic of reaching this goal. This is mainly due to a new branding strategy in which the company will become more visible through flyers, brochures, posters, and radio programs. The vision will, however, soon be transformed into a more abstract notion of helping rural farmers at the BOP across Kenya and Eastern Africa. The size of the market is not a restraining factor - it is enormous. More than 75% of the population in Kenya is involved in agriculture (Feed the Future, 2011), and the numbers look similar for the entire Sub-Saharan Africa.

Therefore, JUHUDI does not feel threatened by competitors nor by shrinking of the market within the next five years.

Future outlook & challenges

While the current social investors have been indispensable since conception, they are less efficient and effective than commercial investors. The social investors have thus gradually become an impediment for growth. JUHUDI, therefore, increasingly attempts to attract commercial investors; however, it has to strike the balance between profit and social impact. By inviting commercial investors to the table, there is a risk that the economic goals and the commercial drivers take over at the expense of the social goals. Moreover, the company has to adjust culturally and mentally when making the transition to a profitable company. JUHUDI is already taking pre-cautionary measures: while bonus schemes have been introduced to motivate employees, Social Impact Assessment tools have been implemented to remind employees of the social mission. The ability to rightly balance the blended value proposition will continue to represent a major challenge.

Key future issues for JUHUDI

- JUHUDI has recently become profitable and is in the transition of sustaining the status as a for-profit company. As mentioned above, this transition is a great challenge, and Nat is very conscience that an increased focus on the economic goals should not be a trade-off of social objectives. This means that ensuring the rightly balanced blended value proposition is the main challenge.
- There is only a small risk that competitors will copy JUHUDI as the costs involved in operations in rural areas are extremely high. JUHUDI is, thus, not worried about competitors the next five years. In case competitors would enter the market, there would be plenty of opportunities for diversification. Moreover, the market is immense and it is growing. There are many farmer organisations (agricultural organizations) emerging and JUHUDI should be able to support these also, in addition to the farmers themselves, as part of the continuous business development. Although weak competition might be positive, CEO Nat is well aware that this puts the company in a sensible and difficult situation: being the exclusive provider of loans to extremely vulnerable and easily exploitable BOP segment should not be underestimated.
- Operation Manager Benjamin stressed his motivation and job satisfaction. He is highly content with his job although he could find much higher salaries elsewhere. Experiencing how JUHUDI benefits the local clients give him enormous motivation, which he did not have in previous jobs. This constitutes a good basis to discuss if the high job satisfaction amongst the employees of JUHUDI might be a competitive advantage of SEs at the BOP.

Perspectives and discussion

Six cases of successful social businesses have been presented. All have found the way to commercial viability in the challenging Kenyan BOP, yet all follow widely different trajectories and face different challenges. Nevertheless, a number of cross cutting issues regarding the concept of social enterprise are being raised by the cases, issues that may serve to shape a critical assessment of the social enterprise concept in a BOP context:

Social enterprises: for the employees and/or for the communities

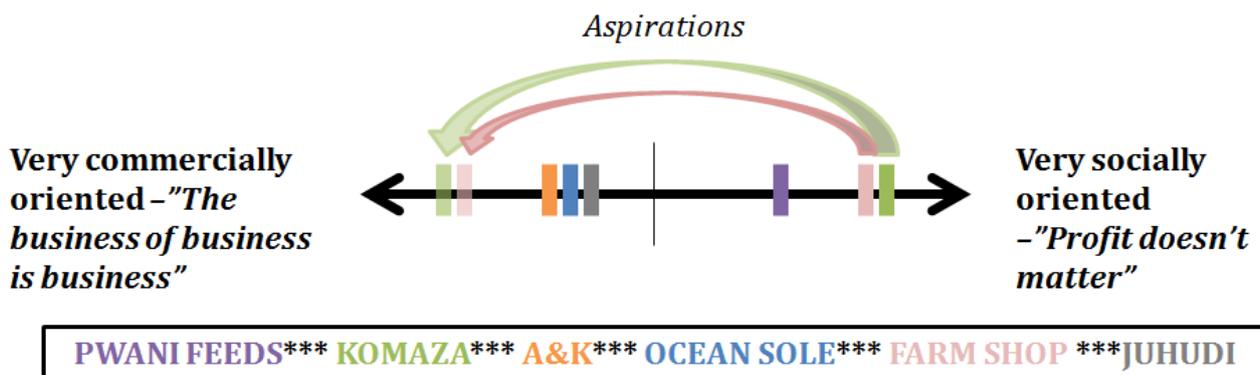
All of the six cases define themselves as SEs (although especially Farm Shop expresses doubt in the concept). Yet their operationalization of the concept varies significantly. In terms the actual implementation of an embedded social enterprise business model, the most remarkable or controversial cases are perhaps A&K and Ocean Sole. The main group of beneficiaries of these businesses are the employees, and thus the potential to create social change outside the enterprise is limited. Thereby, the ability of these two businesses to create 'social change' as dictated by social entrepreneurship literature is limited, and it becomes difficult to detect the difference between this type of business model and the business models of "good normal businesses" as Tevis from KOMAZA denominates them. In contrast, Pwani Feeds illustrates the opposite extreme: While the company creates life-changing opportunities for its customers, its own employees work under poor conditions. One group of employees works in 8 hours shifts, physically loading 70kg bags from/on trucks. Another group ensures the right mixing of ingredients into the feeding mill. This is done in a nerve-wracking noise and dust-filled air, with no earmuffs or masks. Hence, the internal practices paradoxically oppose the external – which may result in legitimacy loss: the 'SE label' might backfire and become counterproductive when stakeholders incl. potential social investors realize this deviance in the social orientation.

Issues for discussion

- *Can an enterprise be social by focusing only on either the customers or the employees?*
- *Which trade-offs does the Employment Model of A&K and Ocean Sole entail?*
- *Is A&K really a SE? Is the creation of jobs for poor people along with the provision of good working contracts enough to label oneself a SE or is this what all businesses do?*

The boundaries of social enterprises vis-à-vis traditional businesses

As the SE concept is vaguely defined there seems to be wide abuse as well as underuse of the concept. When defining SEs as opposed to conventional businesses, the perception of being social is central. All of the six cases define and perceive themselves as SEs; however, when asked to define their degree of social orientation the answers were as follows:



Three of the cases place themselves to the left of the middle with a commercial orientation and three place themselves to the right with a social orientation. JUHUDI explains how it has moved to its current position (from a high social orientation) and likewise, both KOMAZA and Farm Shop have aspirations to move to the far left of the scale. This leaves Pwani Feeds as the only company to the right of the middle^{xii}. Overall this shows that the social enterprises have an ambition to move towards commercial orientation. What is remarkable, however, is that all of the six cases do not see a trade-off in the social mission when commercializing. According to them, the more commercial they get, the higher social impact they create. It seems to be implied that social impact cannot be achieved to the wanted extent without commercial orientation, which has significant implications for the concept of ‘social enterprises’.

Issues for discussion

- *In the six cases, when and why are commercial and social orientation mutually supportive and when are they conflicting?*
- *How are the six cases different from ‘good normal businesses’ and are they social enterprises at all?*

Social enterprises and the BOP

Building on the points above, one may contextualise the concept and ask whether it is possible to be commercially successful in the BOP *without* creating employment and/or contributing to poverty alleviation. In other words, aren’t all businesses operating in the BOP per definition social enterprises?

The rhetoric used by the founders of the BOP literature essentially obliterated the distinction between profit making and poverty alleviation by stating that businesses could achieve both things at the same time. In this way, it could be argued that the BOP literature embodies Friedman's famous statement that "*the social responsibility of business is to increase its profit*" (Friedman, 1970). This has indirectly been supported by Simanis & Milstein (2012) who argue that poverty alleviation is not a key competence of firms and should thus not be the core focus of BOP projects – profit should.

Issues for discussion

- *Is Friedman after all right, that the pursuit of profit is the best way for businesses to create welfare?*
- *Is the BOP concept really a reformulation of Friedman's dictum?*
- *Would the case companies have made the same progress had they subscribed to Friedman's views from the outset?*

Social orientation as a source of commercial viability

The survival of any firm depends on its ability to stay competitive. It has been argued that four resource attributes are necessary to obtain sustained competitive advantage: valuable, rare, imperfectly imitable and not substitutable (Barney, 1991). This has been supported by Teece (2010) who argues that competitive advantage is achieved through an inimitable business model, which is difficult to replicate. In this light it is relevant to ask in what sense the capabilities of the six cases are inimitable and un-replicable, and how sustainable their competitive advantages are.

When asked whether believing being a SE constitutes a competitive advantage in the BOP all six cases confirmed. The reasons given were a mixture of access to low-cost funds, trust from the local community and beneficiaries, increased sales due to the compelling story behind their businesses, and passionate and dedicated employees. In other words, it appears that social orientation is a competitive advantage which is necessary in order to stay competitive in a BOP context. But if social orientation is a necessary prerequisite at the BOP, the notion of a SE is dissolved on a conceptual level for two reasons. First, the notion is dissolved because a SE needs to be commercially sustainable to be social – which then constitutes a necessary condition for all businesses to be social. Second, the notion is dissolved because when commercial success depends on social orientation (as argued by Porter & Kramer), all companies will work towards becoming socially oriented. Seen in this light, one may argue that all six cases have by trial and error discovered new and profitable ways of doing business in the BOP – but whether they are SEs or traditional commercial enterprises with social objectives is up for discussion.

One of the main advantages of the six SEs appears to be their ability to develop new markets. Former Regional Director of East African Social Enterprise Network, Carlo Chege, argues that SEs with their innovative solutions realize the potential in a hitherto unexplored market and enter this new area, thereby creating market disequilibrium. The SE will be able build up the market and with time, conventional businesses will enter the market as well, driving the market equilibrium to this new place (which entails more social benefit than the previous equilibrium). In this way, one may argue that SEs are first movers in 'Blue Ocean markets' which have no competition, but great potential (Chan Kim & Mauborgne, 2004) and that SEs are able to compete here *because of their social orientation*. This may indicate that the social orientation is a key source of competitive advantage at the BOP. Consistent with that, it was found that all cases except A&K have entered new markets in which no or little competition seems to exist. JUHUDI explains that it does not expect competition in the next five years, and KOMAZA cannot think of any competitors to arise at all. However, while this ability to seize new market opportunities may be an initial advantage, one might question the sustainability of advantages based on the absence of competition – with time, when the markets have matured, the companies might face fierce competition from new entrants in markets with low entry barriers.

Issues for discussion

- *The cases each hold competitive advantages – but are these direct results of them being SEs or is being an SE, in fact, a competitive advantage in itself, developed to survive in the BOP environment?*
- *Is a 'Blue Ocean' market a prerequisite for social enterprises to be successful in the BOP?*

Commercial viability as a source of social impact creation

As the size of the social impact of SEs obviously depends on how many people they reach with their activities, an essential criterion for success of SEs is their ability to scale up activities. Several of the cases explicitly focus on scalability. For instance, Tevis from KOMAZA specifically mentions that his business model was designed from scratch to be able to scale significantly across Kenya and SSA – otherwise he did not regard the impact to be significant or even relevant. However, other cases are less focussed on scalability. For instance, A&K does not seem to measure how many children in fact get new footballs, and the locations of their health campaigns are arbitrarily selected with no or only limited follow up. Hence, the scale of its social achievements does not seem to be accounted for properly. Likewise, Julio from Farm Shop expresses content with reaching around 150 agro-vets – thus, the sky does *not* seem to be the limit and social change does not seem to be the overall goal, as dictated by social entrepreneurship literature.

Issues for discussion

- *Is the concept of a social enterprise dependent on the ability to scale and thereby create social change?*
- *Are SEs' social missions fundamentally in conflict with the attempts to scale activities to maximize social impact?*

The boundaries between social business and development assistance

As stated above, it can be argued that SEs are 'market builders', able to promote genuine development at the BOP through the creation of new market equilibrium and effectuation of social change. However, a less favourable interpretation would be that SEs simply are 'market takers' who identify a 'non-market' without competitors and without potential for return on investment. Here they operate commercially ineffectively through social capital injections from patient and good-hearted investors until the market matures on its own. At this point competitors finally emerge and through their commercial effectiveness they drive the SEs out of business. In this way, SEs might be regarded as a mere instrument of unsustainable aid.

Issues for discussion

- *Seen from a welfare perspective, are SEs 'market builders' who represent a way to create new markets and promote development in developing countries or are they 'market takers' representing a new modality of development assistance?*
- *Would the argument that SEs are able to create social change influence this discussion in favor of SEs being market builders, or even 'society change makers'?*

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End notes

ⁱ A business model is a snapshot that can change rapidly and consequently, there is a growing amount of literature around the topic of business model innovation (Osterwalder et al, 2005). Likewise the literature on the distinction and the connection between business model and strategy is augmenting. The fine line between a business model and strategy has been widely debated, however, regardless of the exact definition the two are intertwined and thus inseparable. There does seem to be agreement that business model distinguishes itself from strategy as its focus is how the business works as a system, whereas strategy includes competition, execution and implementation of business model (Osterwalder et al, 2005; Magretta, 2002).

ⁱⁱ Both secondary and primary data has been used. The former includes books, journals, web articles, and webpages. The latter was collected by the usage of interviews, questionnaire, and an analytical tool (the Business Model Canvas). Besides the interviews of the management, all companies except Farm Shop were visited at their head quarter and/or production facility and additional members of staff were consulted.

ⁱⁱⁱ The cases were selected from following selection criteria which were established against the backdrop of the literature review:

- Is working in the BOP for the BOP: The cases promote business solutions to poverty alleviation; The topic is within the scope of the MSc.BLC, BADS
- Is operating in Kenya: The research is supported by SAFIC; There is potential for valuable contribution to the social business literature as there is limited empirical evidence from East Africa; There is a reasonable number of Kenyan SBs compared to the neighbouring countries; Choosing several cases from one country makes the empirical evidence more compelling
- Has started from scratch in the market: The cases do not follow any inherent contingencies/path-dependencies; The results are not disturbed by internal organizational and managerial factors in the case of a foreign MNC; The cases do not engage in business model innovation, but rather business model generation around a social mission (thereby the business model innovation literature is beyond the scope)
- Is an SME (between 10-250 employees): Being an SME the company has grown to a significant size which in itself must be regarded as an indicator of growth and success
- Is a social enterprise: The cases perceive and define themselves as social and thereby has an explicit social vision and mission which is achieved through financial means
- Is already, or will be, commercially viable (profitable) within 10 years after founding: Commercial viability can be regarded as a prime indicator of commercial success; Reliance on soft capital can become a pretext for inaction and will not entail the transition from a charity to a business
- Has been in operations for at least two years: Mere survival in BOP market can be classified as a success; Two years of operation gives a certain experience
- Preferably operates in the agriculture/food processing industry: As more than 75% of Kenyans are still involved in agriculture any business operating in this industry would have potential for national scale and thereby a relatively high poverty alleviation impact; The cases are thereby applicable for SAFIC

^{iv} Each case was regarded as unique and thus literal replication rather than sampling logic was used to demonstrate variations of the same results. A combination of induction and deduction was used in order to benefit from the advantages of both traditions: flexible and exploratory data collection methods based on a structured foundation facilitating certain generalization of the findings. The intention of the research is to inspire the academia, local as well as foreign companies, as well as business students with an interest in the (Kenyan) BOP market.

^v The fodder production is not limited to poultry fodder, but includes fodder for most livestock, including pigs, ducks, and cattle. The poultry farmers have, however, been the focus from the beginning.

^{vi} KOMAZA started with eucalyptus trees, but after four years (in 2011) Melia Volkensii was also planted. This is a native tree resilient to drought and parasites. The usage of two tree species not only increases the biodiversity, it also gives farmers a choice to select from.

^{vii} "Farmer packages" consist of fertilizer, pesticides, short time cash crop seeds (cowpeas and chili) for 1,5 years. These seeds are to ensure an income for three seasons for the farmer. There is no gain whatsoever in this for KOMAZA. It is given as a strategic effort to build up trust whilst helping the farmer increase income in this period.

^{viii} During the interview, the company re-branded itself from Flip Flop Recycling Company (OCEAN SOLE) to Ocean Sole Flip Flop Recycling Company, or just "Ocean Sole".

^{ix} No additional financial figures were provided.

^x No additional financial figures were provided.

^{xi} The certification is given to corporations that, "*uses the power of business to solve social and environmental problems*" (Bcorporation.com, 2013). The certificate entails certain advantages such as discounts, promotions and alike. JUHUDI is the first Kenyan enterprise on the list.

^{xii} The company is the only case that has not started as a charity/NGO status. It has had purely commercial revenue streams and showed no ambition of commercializing further. This might therefore indicate a misunderstanding of the scale.