

## **Social Enterprises : An Innovative Disruption in the Business Environment in India**

**Ms. Pallavi Choudhary**

Research Scholar, Deptt. Of Commerce,

Manipal University Jaipur

Pallavichoudhary.prof@gmail.com

**Professor (Dr) M.L. Vadera**

Director, School of Business & Commerce,

Manipal University Jaipur

drmivadera@gmail.com

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Since ages, India has been a land to number of social enterprises which built the very fiber of the Indian economy alongwith the mainstream businesses and caused the large scale socio-economic impact at a grassroot level. With India being the second largest country in the world in terms of population, where most of its population resides in rural and peri urban areas and is illiterate with many facing challenges in basic everyday living, there is an inherent need to build the country's socio-economic space through social impact organizations. Also, more because of the nature of the economy we are and the nature of the demographics we pertain to.

India housed number of NGO since long, apart from the federal cooperative and community-owned businesses such as FabIndia and Amul since the 1950s. Also, the social entrepreneurship development organization, 'Ashoka' had introduced the term 'social entrepreneur' in India in 1981, which was way ahead of its time as compared to other South Asian countries where the concept of Social entrepreneurship was yet to be introduced.

This clearly shows that with its huge population facing myriads of issues, the need to evolve India's social space has been evident for long now and not to much despair, India has also been a hot bed for social enterprises. But as we move forward in time and grow as an economy, there is

an inexorable and an inevitable need to shift from the Not for Profit Organization (NGO) model to Social Entrepreneurship based model.

This research paper tries to posit the present scenario of the social sector in India, challenges that lay ahead for an enterprise to become a social innovator and simultaneously, describes the future of social sector enterprises in India, while showcasing the gendered perspective of this space.

**The major objectives of the research paper are as follows**

1. To understand the need of social entrepreneurship organizations in India to bring an innovative disruption in the socio-economic space.
2. The challenges faced by social sector enterprises in India.
3. To understand the need to shift from an NGO model to a Social Entrepreneurship model.
4. The suggestive future course of action for social sector enterprises in India.

**Research Methodology**

This study combines explanatory as well as descriptive methods to fulfill the objectives of the research and uses a set of secondary data from a reliable source where ever necessary to answer certain questions that were tend to be raised in the very beginning of the study and to establish the conclusions of the study.

**Details of the Secondary data used**

A survey report by British Council titled 'The State of Social Enterprises in Bangladesh, Ghana, India and Pakistan. The State of Social enterprises in India' has been used to undertake the study, develop key findings and establish conclusions.

For the purpose of the above mentioned report, total of 39 central government policies relevant to social enterprise and entrepreneurship were mapped. Survey data was collected between September 2015 and January 2016.

A total of 498 organizations completed the survey. 258 respondents were classified as social enterprises for the purposes of this study as per the study's inclusion criteria (52%). Data from the remaining 240 organizations was also analyzed and is reported to contrast with the social enterprise data.

## **Key Findings**

### **Challenges**

#### **1. Lack of capital support due to lack of awareness about social enterprises**

There has been a specific finding that there exist a major lack in understanding of a social enterprise or a social entrepreneurship venture and because of this social entrepreneurs face strong hurdle while looking to raise capital to startup or to scale up. Through the findings of the survey it was reported that 32% of social enterprises reported a lack of awareness among banks, other financial institutions and support organizations about whats, whys and hows of a social enterprise. Around 20% also stated that has been a lack of awareness about the objectives, goals and business model of a social enterprise among general public, customers and other stakeholders. This has hugely affected their ability to raise funds through debt funding, equity as well as other hybrid models of investment. This issue further aggravated as there is no specific support from Government as well to promote social sector startups, such as under Start-up India Programme, there is no specific support provided to social enterprises.

#### **2. Staffing as a major barrier**

Through the survey, it was found that around 73% of the social enterprises in the North, 66% in the South, 69% in the East, 59% in the West, and 91% in the North-East are working directly with the youth and have been employing them at various positions from managerial to a semi-managerial to non-managerial positions. Around 89% of these social enterprises are seeking to engage more youth by hiring for various positions and increasing their employee head count in the immediate years. But, in spite of such growing demand in the job market in social sector, there is a dearth of trained professions who can be the best-fit for a social entrepreneurial venture. Around 31% of the social enterprises reported that that they found it extremely difficult

to find an employee with sound managerial skills, around 26% found it as a major barrier to employ junior staff and 24% told that they are facing difficulty in hiring a technically skilled human resource. Therefore, it clearly shows that staffing remains to be a major barrier for social enterprises to grow.

India is a country with huge youth population where more than half of the country's population is under 35 years of age. To reap the benefits of such huge demographic dividend that our country holds, it is utterly necessary that we build on the high potential of our youth and channelize their energy flow in the right direction with a focused approach towards educating the youth and developing their professional skills to lead a social enterprise.

To develop a conducive social enterprise ecosystem in India, there is an immediate need to for a simultaneous growth in professional skills of its youth population.

### **3. Female founders or co-founders face specific gender biases while obtaining funding**

Although the female participation in the social entrepreneurial ventures is significantly better on gender ratios than that of the mainstream business with 24% of social enterprises having women as their founders/co-founders whereas only 8.9% mainstream businesses having women founders/co-founders, but the disparity at a macro level and at an entrepreneurial ecosystem level is much higher. Female founders report that business environment and ecosystem isn't conducive enough and poses gender specific challenges, which when doubled up with the challenges of being a social entrepreneur become major hurdles to growth.

Through this study it was found that female founders face strong gender bias while they go out to source funding and investments for their venture where investors question their ability, seriousness and commitment towards their enterprise based on their family responsibilities as a wife, mother, daughter, homemaker etc., maternity leave, work-life balance and others. Also, to the fact that major assets and businesses in India are generally inherited and owned by men, women who are homemakers and other small business owners face major constraints in providing a collateral security while starting up and scaling up their social enterprise.

#### **4. Regulatory restrictions and lack to resources to productise their offerings and services**

The survey found out that around 33% of the social enterprises have lower or very limited access to networks, both national as well as international, because of the fragmented social entrepreneurial ecosystem in India, poor international exposure and connections with like minded social entrepreneurs and other stakeholders through which best practices in the social sector can be shared. This reduces their chances of strategic collaborations and external reconstruction and affects their growth strategy. As per the finding, it was also established that around 14% of the social enterprises find a major hindrance in obtaining capital through international sources as there are regulatory barriers to secure foreign investments and equity. As per the regulations in place, the funding has to be approved by the RBI which results in operational delays. Also, Foreign Contribution Regulation Act (FCRA) guidelines and the minimum time period restriction to obtain FCRA grant hampers momentum.

Also, it was found that India has been extremely restrictive for non-profit organizations for them to obtain funding for their sources of funding being limited to donations made to them wherein they cannot provide a return on investment to investors. This makes them ineligible to obtain funding through a venture capital or an equity funding or impact investment route.

Through the survey, it was also found that around 21% of social enterprises showcase only limited performance record in the initial years and at proof of concept stage as they find them severely crunched on resources to carry out product prototyping, pilot work, customer identification surveys, market identification processes etc. as being a social enterprise, they fail to attract investors to fund their initial years of work, as investors do not prefer investing without seeing major impact created on ground by the investee startups, whether they being social or business startups. This thereby leading them into a vicious cycle which becomes difficult to break.

#### **Suggestions**

1. Through the findings of this study, it is suggested that government should take proactive steps to build a more conducive entrepreneurial ecosystem specially for social entrepreneurs by

creating awareness about the need, requirements and objectives of a social enterprise. Also, to make funding more accessible for such social sector startups, Government can make policy reforms through which it can earmark a proportion of the major government funds to support startups, such as Start-Up India Fund, AIM fund etc. for social enterprises, can enhance statutes to significantly divert CSR funds into social enterprises. This will also encourage Banks and other financial institutions to understand the specific needs of a social enterprise and device more social enterprise friendly funds.

2. Social enterprises should initiate a process of equipping young people with skills that could build and sustain a pipeline of work force for them such providing vocational training to youth, providing entrepreneurship skilling to disadvantage, launching social enterprise trainings etc. Skills development should be on the agenda for it to start early at an academic level where more and more educational institutions should be made stakeholders in providing and delivering courses on managing a social enterprise management skills necessary to lead social enterprise.

3. Central Government alongwith State Governments and other Support organizations could set up a Pilot Investment and Impact Fund for social enterprises which can be provided to early stage social sector startups for them to undertake their on ground impact analysis and to assess whether they are eligible to obtain further rounds of funding or not. And if found eligible for further rounds of funding, they should be connected to various such impact investors through a common platform where they can showcase their product or service and pitch before investors.

4. Relaxing regulatory requirements such as approval from RBI to be made time bound, easing FCRA regulations etc. would enable foreign funds to flow in for social enterprises as well and will significantly accelerate the momentum in the social sector in India.

5. Government should support setting up of incubation centres specifically for social entrepreneurial venture, such as AIM supported incubation centres, DST funded incubation centres, BIRAC Incubation centres etc. These incubation centres can provide handholding support to early stage social enterprises and can provide scale up support to those social enterprise which have shown an impact in the socio-economic space.

6. A suggestive Shift from an NGO model of an enterprise to a social entrepreneurship model will also help a great deal having process aligned in order to fulfill the scaling up requirements of an enterprise and unlock the hidden potential of the idea. This will also help in bringing innovation at an operational level and in supply chain and will make it a Not-for-loss enterprise.

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