Chapter 2

Social Entrepreneurship and Innovation

Solutions to Discussion Questions

1. ‘Give a man a fish, and you feed him for a day. Teach a man to fish and he can feed himself for life.’ How might you put this principle into practice through a social entrepreneurship venture, and what might stop you making a success of it?

This draws on themes raised early in the chapter and particularly picks up some of the skills and characteristics needed in social entrepreneurship set out in Table 2.1. It is essentially about entrepreneurial ideas (also discussed in Chapter 10) but channelled into social value creating activity. Chapter 2 presents the innovation process model used throughout the book, and identifies particular social entrepreneurship challenges associated with it.

2. ‘Some problems have no solution’ – a somewhat pessimistic Japanese saying. How might a social entrepreneur challenge this?

This again uses the basic themes in the beginning of the chapter but could also draw on some of the examples listed in the chapter, or others which students might find across the web on some of the social entrepreneurship sites mentioned in the text.

3. Jasmine Chang has approached you, as an innovation advisor, with a novel treatment for childhood diarrhoea. How would you advise her to take this idea forward to make a difference?

This draws on themes raised early in the chapter and particularly picks up some of the skills and characteristics needed in social entrepreneurship set out in Table 2.1. It is essentially about entrepreneurial ideas (also discussed in Chapter 8) but channelled into social value creating activity. Chapter 2 presents the innovation process model used throughout the book, and identifies particular social entrepreneurship challenges associated with it.

4. In many ways taking a socially valuable concept to market has much in common with ‘conventional’ new product development. Where do you see the similarities and differences?

Chapter 2 sets out the basic innovation process model used throughout the book and identifies key areas where social entrepreneurship poses particular challenges.

Solution to Assignment and Case Study Question

Identify an area of social need and develop some ideas for possible innovative solutions which might help deal with this challenge. Then think about how you would turn this into a business plan and convince other people to back your idea or help you take it forward. Think about the likely questions they would ask and how you would make a strong case to convince the more sceptical members of your audience. Write your ideas up as an outline business plan.

This builds on two themes – getting ideas for a social innovation and then developing a business plan. The second part is essentially an extension of the themes in Chapter 10 and are reproduced below.

Developing the business plan

The primary reason for developing a formal business plan for a new venture is to attract external funding. However, it serves an important secondary function. A business plan can provide a formal agreement between founders regarding the basis and future development of the venture. A business plan can help reduce self-delusion on the part of the founders, and avoid subsequent arguments concerning responsibilities and rewards. It can help to translate abstract or ambiguous goals into more explicit operational needs, and support subsequent decision-making and identify trade-offs. Of the factors controllable by entrepreneurs, business planning has the most significant positive effect on new venture performance. However, there are of course many uncontrollable factors, such as market opportunity, which have an even more significant influence on performance. Pasteur's advice still applies, "…chance favours only the prepared mind."

A typical formal business plan will include the following sections:

1. *Details of the product or service*
2. *Assessment of the market opportunity*
3. *Identification of target customers*
4. *Barriers to entry and competitor analysis*
5. *Experience, expertise and commitment of the management team*
6. *Strategy for pricing, distribution and sales*
7. *Identification and planning for key risks*
8. *Cash-flow calculation, including breakeven points and sensitivity*
9. *Financial and other resource requirements of the business.*

No standard business plan exists, but in many cases venture capitalists will provide a pro forma for the business plan. Typically a business plan should be relatively concise, say no more than 10 to 20 pages, beginning with an executive summary, and including sections on the product, markets, technology, development, production, marketing, human resources, financial estimates with contingency plans, and the timetable and funding requirements. Most business plans submitted to venture capitalists are strong on the technical considerations, often placing too much emphasis on the technology relative to other issues. As Ed. Roberts notes, '…entrepreneurs propose that they can do it better than anyone else, but may forget to demonstrate that anyone wants it.' He identifies a number of common problems with business plans submitted to venture capitalists: marketing plan, management team, technology plan and financial plan. The management team will be assessed against their commitment, experience, and expertise, normally in that order. Unfortunately, many potential entrepreneurs place too much emphasis on their expertise, but have insufficient experience in the team, and *fail to demonstrate the passion and commitment to the venture.*

There are common serious inadequacies in all four of these areas, but the worst are in marketing and finance. Less than half of the plans examined provide a detailed marketing strategy, and just half include any sales plan. Three-quarters of the plans fail to identify or analyse any potential competitors. As a result most business plans contain only basic financial forecasts, and just 10% conduct any sensitivity analysis on the forecasts. The lack of attention to marketing and competitor analysis is particularly problematic as research indicates that both factors are associated with subsequent success.

For example, in the early stages many new ventures rely too much on a few major customers for sales, and are therefore very vulnerable commercially. As an extreme example, around half of technology ventures rely on a single customer for more than half of their first-year sales. This over-dependence on a small number of customers has three major drawbacks:

1. Vulnerability to changes in the strategy and health of the dominant customer
2. A loss of negotiating power, which may reduce profit margins
3. Little incentive to develop marketing and sales functions, which may limit future growth.