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Creative and collaborative strategies for social enterprises in the Philippines

Introduction

Social entrepreneurs are a bold lot. As Bill Drayton, author of *Leading Social Entrepreneurs Changing the World*, puts it: “Social entrepreneurs are not content to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry.” This quotation captures how these driven individuals have created social value through innovative ideas that often challenge conventions. Their vehicle for this is the social enterprise.

By blending a strong social mission with new business models, social enterprises are “filling a void” that traditional businesses, governments, and non-profit organizations could not adequately do (Austin, et. al., 2006). Some governments, for example, have not been able to deliver basic social services effectively because of weak governance and the lack of resources. Commercial enterprises, on the other hand, could not sufficiently provide some public goods, especially for individuals at the bottom-of-the-pyramid. Moreover, philanthropic efforts by big corporations have largely been fragmented due to a variety of causes individual firms support. Finally, many non-profit organizations could not quickly scale up their programs to benefit more communities due to their dependence on donations and grants.

British author Charles Leadbeater observed that many social enterprises are small and fragile, yet, there is “growing interest among policymakers, young people, entrepreneurs, funders, and established business” in this sector. This, he said, “is testimony to the way that social enterprise addresses weaknesses in the operation of both markets and government” (Leadbeater, 2007, p.2).

In the Philippines, we have seen the emergence of social enterprises over the past decade. Credit partly goes to Gawad Kalinga (GK), which played a huge role in jumpstarting several social enterprises through its GK Enchanted Farm in Angat, Bulacan. In the farm, social entrepreneurs get a chance to grow their businesses in a ‘supportive business ecosystem’ (i.e., an enabling environment that allows them to learn from their mistakes). Some are doing fairly well in terms of coming up with innovative product ideas and in building their brands. Among these young

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entrepreneurs are Alvie Benitez (Golden Duck), Xilca Alvarez-Protacio, Ron Dizon, and Shanon Khadka (Bayani Brew), Alvarez-Protacio (Gourmet Keso), and Fabien Courteille (Karpentoy, Plush and Play). All of these businesses utilize the resources and facilities of the farm, and provide employment to the local residents.

Unique challenges

For social enterprises to succeed, they must overcome unique challenges that result from having dual objectives (i.e. economic and social). Social entrepreneurs realize that reconciling the profit motive with social objectives is not any easy undertaking. This is due to what Dees and Anderson (2003) described as “the additional complexity that arises when combining two different, sometimes divergent, objectives” (p. 7). There is always the danger that one or both of these objectives will be compromised.

One major challenge is measuring social benefits, which are often intangible, hard to quantify, and open to dispute. This makes a direct comparison of financial and social performance difficult. Social entrepreneurs soon realize how hard it is to make strategic decisions on allocating resources or to assess how much to invest in pursuing a particular means of creating social value. In some cases, when a conflict between profits and social goals arise, the social entrepreneur prioritizes the economic bottom line. Otherwise, he or she will be driven out of business.

Another challenge is attracting talent who can function well in a setting that combines the world of business and the social sector, because there is a limited pool of individuals with non-profit backgrounds who also have MBAs or business experience. For social entrepreneurs who succeed in assembling a mixed team of business managers and non-profit workers, managing cultural differences does not come easy. According to Dees and Anderson, business-oriented employees “are generally more used to taking risks, working in fast-paced environments, and setting clear, measurable goals and objectives,” while individuals from the social sector “are often more consensus-driven, passionate about a particular cause, and focused on responding to needs rather than anticipating or creating them” (p.9).

From competitive to collaborative strategies

For-profit social enterprises, in particular, must adopt and implement appropriate business strategies to keep themselves viable. However, existing business-strategy models and frameworks are based on assumptions that do not consider the special circumstances of for-profit social enterprises. The first

assumption, eloquently articulated by Nobel Prize winner Milton Friedman (1970), is that the primary goal of business is to generate maximum profit for its owners. The second assumption, as exemplified by Michael Porter’s competitive strategy, is that doing business is a largely zero-sum game, i.e. one player’s gain can be made at the expense of another player’s loss. These assumptions run counter to the *raison d’être* of social enterprises, which seek to balance, if not reconcile, the interests of multiple stakeholders.

Fortunately, social enterprises can adopt alternative strategies that do not attempt to ‘kill’ or ‘eliminate’ competition but that, instead, seek to create value through creative, collaborative, and community-oriented approaches.

Among the more successful social enterprises in the Philippines seem to follow this path. These include Gandang Kalikasan, Inc, which produces and distributes a range of natural personal care and beauty products that carry the brand name “Human Nature”; MicroVentures, Inc., a company that enhances the profitability and viability of sari-sari stores across the country by providing store owners, mostly women, with business coaching, leadership training, and store branding knowledge under the Hapinoy Store Program; and ECHOstore Sustainable Lifestyle, a business that carries the products of artisans and micro-entrepreneurs and that seeks to sustain the self, the community, and the environment.

Human Nature

Human Nature was launched in November 2008 by Anna Meloto-Wilk, Dylan Wilk and Camille Meloto, with the aim of providing additional livelihood to Gawad Kalinga (GK) residents. The company’s founders envisioned GK communities “as globally certified organic farms that can produce world-class raw materials for Human Nature products.” Human Nature’s vision is to “be the gold standard of a globally successful enterprise with a heart that will embolden all businesses to better serve society.” Its slogan is “pro-Philippines, pro-poor, and pro-environment” (www.humanheartnature.com/).

Human Nature offers a wide variety of products that fall under the following categories: mineral make-up, hair care, facial and lip care, hand and body care, baby care, kids care, protective care, and merchandise. The ingredients used in these products are biodegradable, and at least 95% natural (the same standard set by the Natural Products Association in the USA). These ingredients also come from renewable resources with no petroleum compounds, and are processed in a way that does not harm the environment.

Being pro-poor, Human Nature buys raw materials from its community-based suppliers at fair trade prices, and sometimes above market prices in its desire “to provide a good quality of life for the farmers.” As much as possible, it sources its raw materials locally. The company also employs residents from GK communities as full-time warehouse staff, and provides them with wages that are much more than the minimum wage. It has also partnered with social entrepreneurs of the Center for Social Innovation (CSI) at the GK Enchanted Farm.

Considered a trailblazer in the social enterprise scene in the Philippines, the company has sold almost 3 million products through its network of 16,000 dealers and 23 major cities in the country.

Hapinoy

Hapinoy is a play on the words ‘happy’ and ‘Pinoy’, the colloquial word for Filipino. Hapinoy was founded in 2006 as a partnership between Smart Communications, the leading telecommunications firm in the Philippines, and MicroVentures, Inc. a social enterprise that leverages micro financing as a powerful tool to empower socially and economically challenged families. Supported by the Microfinance Council of the Philippines, Hapinoy works closely with four microfinance institutions (MFIs), the biggest of which is the Center for Agriculture and Rural Development, Inc. (CARD) (www.hapinoy.com/).

Hapinoy works with its partner MFI’s borrowers, usually work-at-home mothers (‘nanays’) that operate sari-sari stores (sari-sari is the Filipino term for “various kinds”), small neighborhood convenience stores that sell various things, mostly basic commodities. These stores are almost always located within, or as an extension of, the storeowner’s home. With about 700,000 such stores in the country, sari-sari stores make up an estimated 30% of total retail sales in the Philippines.

The Hapinoy Store Program starts with the infusion of capital (through the resources of the MFI program partner) to, and conversion of, an existing sari-sari store in a specific town to a lead store or, in Hapinoy terms, a Community Store. The Community Store is set up to service 100 to 120 smaller stores on average. These stores are provided a Hapinoy franchise, which brings with it several benefits. By providing these stores with a direct link to the factories of companies such as Unilever and Nestle, Hapinoy enables store owners to gain as much as 15% savings in acquiring goods. This has resulted to higher margins for the store and lower prices for its buyers.

Hapinoy also provides its franchisees training in pricing, inventory management, and branding, among others. Through

the support of SMART, stores do not only sell pre-paid phone cards, but also install internet kiosks to provide communities with online access. In addition, Hapinoy creates a market for local producers who find it hard to sell their goods in larger retail outlets.

Today, Hapinoy has evolved into a full-service micro-entrepreneur enhancement program. It has become a network of micro, small, medium, and large enterprises. Within this network, the Hapinoy Community Stores and the sari-sari stores serve as the hubs for goods and services that are coursed through the program and offered to its target market: the base of the economic pyramid. Hapinoy has made a difference in the lives of tens of thousands of women micro-entrepreneurs throughout the country, and is reaching out to thousands more.

ECHOstore

ECHOstore Sustainable Lifestyle opened its first branch in Serendra in 2008. Considered as the first green retail store in the Philippines, ECHOstore offers organic, natural, and nontoxic goods ranging from home cleaning products to staples such as organic rice, sugar, and other produce. It also carries a diverse range of products from home care, personal care, and handicrafts. Soon after, ECHOstore opened its second branch at the Podium. In 2011, its owners opened ECHOmarket Sustainable Farms and ECHOcafe, two related business concepts that complete the whole ECHOstore retail triad (www.echostore.ph/).

ECHOstore was founded by Pacita “Chit” Juan, Reena Francisco, and Jeannie Javelosa (collectively known as the ECHOtrio), who saw an opportunity in the growing environmental consciousness of this generation. Located in first-class shopping enclaves in Metro Manila, ECHOstore promotes sustainability awareness among consumers, and offers fair-trade products produced by talented craftsmen from marginalized communities to the high-end market segment. According to Chit Juan, ECHOstore had to target the upscale segment because these are the people who are likely to “understand the advocacy and the story of living a healthier, greener, and sustainable lifestyle” (personal communication, November 22, 2013).

ECHOstore has been collaborating with government agencies, LGUs, NGOs and other businesses to support the livelihood of community and women’s groups [Note: Over 90% of the store’s community suppliers are women-led businesses] not only by providing market access, but also by helping these groups gain knowledge and skills in the areas of product development, branding, packaging, cost accounting, and general business know-how.

As stated in its web site, ECHOstore “has worked with 82 organizations and foundations, impacting 8,000 households with over 34,000 beneficiaries.” ECHOstore does this primarily through the ECHOsi Foundation, which offers programs such as the ECHOdesignlab, ECHOtalk, and ECHOteach. While ECHOstore focuses on business-related activities, ECHOsi oversees the product development activities of the ECHOsystem, which largely happen in local communities.

“ECHOstore thrives on the many stories it tells,” says Chit Juan. These stories exist in the smorgasbord of products – around 3,400 – it offers, some selling better than others, and some not selling at all. She believes, though, that all these products make the story of a “sustainable lifestyle” authentic and more believable.

Future research

At the DLSU Center for Business Research and Development (CBRD), one of our priorities is to understand the dynamics of social entrepreneurship. We have barely scratched the surface in our attempt to document the business models of select Philippine social enterprises and the strategies they have adopted to achieve both their economic and social objectives. Among the questions we seek to answer are the following: How do for-profit social enterprises deal with the tensions that arise from attempting to simultaneously achieve these seemingly conflicting objectives? What are the circumstances that allow for the ‘reconciling’ of these dual objectives? Have for-profit social enterprises ‘migrated’ from competitive strategy to more creative, collaborative, and community-oriented strategies?

We also recognize the need to develop metrics for ‘social performance’ that will allow social enterprises to gauge the effectiveness of the strategies that they implement. While the measures of financial performance (e.g. profitability, liquidity, solvency, turnover, etc.) are taken for granted, the debate on what constitutes acceptable and practical measures of social performance is far from settled. This is another knowledge gap that we intend to address.

Over the next few months, we will focus our efforts on getting the cooperation of social enterprises throughout the country and on generating support from generous funding institutions, as we work on the succeeding phases of this research undertaking. We plan to come up with detailed case descriptions of business models and innovative practices that have emerged from the attempts of social entrepreneurs to keep their businesses viable even as they strive to remain true to their mission of ‘changing the world’.

Note: This is an expanded version of an article titled “Strategies for social enterprises” (written by the first author), published in the December 23, 2013 issue of Manila Standard Today, under the opinion column Green Light. This article also draws from an unpublished manuscript tentatively titled “Challenges and strategies in pursuing financial and social bottom lines: Managing for-profit social enterprises in the Philippines” written by both authors.

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NOTES AND BRIEFINGS

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