

Family Businesses and Family Foundations throughout the world are increasingly interested in the areas of social entrepreneurship and impact investing. What is the appeal of these areas and how best can family businesses engage in them?

Social Entrepreneurship, a nascent field since the early 80s, became a mainstream area in 2006 when the Nobel Peace Prize was awarded to Muhammad Yunus and his pioneering bank for the poor people in Bangladesh – Grameen which had by then spun a global micro-finance industry with 150 million clients and \$25 billion in loans.

But beyond the well-known example of microcredit as a business innovation to alleviate poverty, thousands of social entrepreneurs are developing innovative solutions to some of the world's most intractable problems, including long-term unemployment, youth citizenship, access to basic services for disadvantaged populations, affordable housing, and knowledge access and sharing.

Solutions to societal problems

Among the social entrepreneurs whom I have met over the last few years to explore their business innovations, there are those using the powerful sense of smell of rats to locate war mines in Africa and thus save countless lives (www.apopo.org), disseminating physical education to elderly people in France thus increasing well-being and lowering health costs (www.sielbleu.org), fitting river boats as hospitals in Bangladesh to provide health care to under-served populations (www.friendship-bd.org), using technology to engage and empower close to a million youngsters from favelas in Brazil (www.cdi.org.br), and using theatre projects to empower long-term young unemployed people in Germany and placing 60% of them back into a professional career (www.projektfabrik.org).

Social entrepreneurs throughout the world match clever solutions to neglected societal problems to achieve a strong impact.

Interestingly, social entrepreneurship is closer to business than to charity. Social entrepreneurs mobilize resources and develop sustainable solutions to important societal problems, often perfecting their

solutions at a local level before replicating and disseminating them nationally or even globally. Instead of focusing on profits (which is a measure of how much value they are able to capture), social entrepreneurs care about and focus directly on value creation for society. Thus they are motivated to operate in areas that do not seem profitable at first and are therefore ignored by commercial entrepreneurs (usually due to low ability to pay by clients or to a high level of value spillovers).

The rise of social entrepreneurship

Many of these areas serve localized segments of the populations and are outside the reach of governments, even if well-endowed and well-intentioned. Furthermore, problems in our society are increasingly complex and interconnected and we need the innovative potential of thousands of social entrepreneurs trying to solve them, not a central government dictating solutions which are not always effective.

Thus, social entrepreneurship is critical for the proper functioning of the capitalist system. It works as the second invisible hand of Adam Smith, driven by mankind's interest for others as opposed to self-interest. The rise of social entrepreneurship comes at the right time, since the capitalist system is increasingly being challenged due to the inequalities that it generates and the gaps that it exhibits.

Alongside the mainstreaming of social entrepreneurs, we are now seeing the rise of an investment market to support them. The field of impact investing aims to identify entrepreneurs and organizations that can achieve substantial impact while offering a return on investment. A related field, called venture philanthropy, is less concerned by financial return, but rather maximizes the societal impact of the investments.

New funds focusing on impact investing or venture philanthropy are appearing in

every country, many of them inspired and funded by family foundations. There are two main reasons why family offices should care about social entrepreneurship and impact investing.

Family businesses funding social entrepreneurs

First, these areas are fully aligned with the long term view and societal concerns of family businesses. Family business leaders invest for the next generation, not the next quarter, and their success depends on thriving and engaged communities, both at a local and national level. Social entrepreneurs act as catalysts to engage with and improve communities, be it in the favelas of Rio, the suburbs of Paris, or the villages of India.

Their solutions are more sustainable than charities and international aid, and usually focus on the underlying causes of societal problems, not merely their symptoms.

Second, these areas make excellent business domains to engage the next generation of the family. Either as social entrepreneurs or as investors in social businesses, engaging with the field of social entrepreneurship will teach the next generation of the family about clever and innovative businesses, at the same time as they build character and values that can become a foundation of the next generation's involvement with the family business.

Strategic philanthropy around social entrepreneurship can also become a rallying point for family union and the reinforcement of family values.

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What are some of the best practices to engage in social entrepreneurship?

First, instead of a scattered approach, it is best to focus on a particular domain of action, ideally connected to the core business of the family, or to an area strongly aligned with its values, or to a particular geography tied to the family identity. If your business is civil construction, affordable housing provides a very interesting growth area. If it is in retail, then ethical and sustainable supply chains provides a fertile field for engagement. Or maybe your family has a particular set of values around the importance of education or the fight against long-term unemployment. These are thriving areas of action for social entrepreneurs. Or maybe the goal is to promote sustainable development in impoverished regions where the family business was founded...

In summary, a focused approach, particularly in areas of strong capabilities or identity of the family, will allow leveraging and strengthening the family core values and skills, providing more value to society beyond the financial resources mobilized

Second, involvement in social entrepreneurship should be seen as more than a stand-alone project. Instead, it may demand the building of a portfolio of activities through a fund, or a network of support with different partner organizations. It should involve the engagement and collaboration of different generations of the family, or even be used as a platform to collaborate with other business families that operate in the same region or have similar values and societal concerns.

This will strengthen the family business networks and the sense of union in large families particularly beyond the second generation.

In conclusion, our society has built over the last 200 years the infrastructure to make commercial businesses a powerful tool for economic development and shared prosperity. This approach may be reaching its limits and leading to diminishing returns. We are now building

the infrastructure to make social businesses a second powerful tool for economic development and shared prosperity. Family businesses should, again, be at the forefront of this process.

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