



DO GOOD, DO WELL

Social start-ups are filling the gaps left by shrinking government budgets

WHAT IF the million-watt creative spotlight of hi-tech entrepreneurs were to shine full force on the dark world of the needy – the elderly, ill, chronically unemployed, addicts, homeless, migrants, hungry, youth-at-risk, single-parent families?

What if, as a result, social entrepreneurs burst forth like crocuses in spring, embraced as their mantra “do well by doing good” and met at least some of the needs of those who struggle? And what if government could be enlisted as an effective, supportive partner?

Quietly, with little fanfare, it is happening.

The fresh winds of creativity are blowing through the musty corridors of government bureaucracy to find innovative ways to help those in need. Social start-ups are thriving to fill the growing gap between social needs and shrinking government budgets trimmed by the false premise that “austerity brings economic growth.”

Social enterprises are organizations that use business strategies to improve human wellbeing. They can be for-profit or not-for-profit, but all share one key feature – their social mission is crucial. Many have a “double bottom line” – measurable social goals and net income. They do good in part be-

cause they do well, earning resources that, in large measure, help others rather than pay dividends to wealthy shareholders.

Take, for instance, Yozma.

In 1993, the government of Israel promised to match venture capital (VC) invested in Israel dollar for dollar through a government VC fund called Yozma, while leaving the profits to the VC investors. Largely as a result of Yozma, Israel’s annual VC investment outlays rose from only \$58 million in 1991 to \$3.3 billion in 2000. Yozma invested in 163 start-ups, whose success rate was much higher than average.

The original Yozma fund was privatized after fulfilling its goals. Its sequel, Yozma Social Investment Fund, was initiated in 2014 by the Finance Ministry, in cooperation with the National Insurance Institute and the Prime Minister’s Office. Other countries, such as Ireland, have copied Yozma.

In 2015, a competitive bidding process chose the Dualis Social Investment Fund and Israel Venture Network (IVN) to launch and manage social funds. Some 30 million shekels was raised, matched by 20 million shekels from the Finance Ministry. The





underlying rationale was for the new Yozma Fund to do for social investment what the original Yozma Fund did two decades ago for private venture investment in Israel.

DUALIS SOCIAL Investment Fund was founded by Allan Barkat, who managed Apax (Israel), a venture fund, for a decade. Dualis is a nonprofit organization that invests in for-profit social businesses similar to a venture capital fund. Dualis combines traditional for-profit businesses such as social cafés, retail stores and software services with social objectives targeted at drop-out youth, people with physical, mental or cognitive disabilities, ex-convicts and other underserved parts of the community.

IVN was founded in 2001. It is a venture philanthropy network of hi-tech entrepreneurs, business executives, venture capitalists, corporations and philanthropists from Israel and the US to recruit and leverages its resources, contacts and experience to develop social businesses. So far, it has launched three social investment funds, invested \$26m., tracked \$5m. in income generated by IVN portfolio companies, with 35,000 beneficiaries and more than 35 new social businesses.

To learn firsthand about social businesses and the reincarnation of Yozma, I spoke with Jackie Goren, director of social business investments for IVN since 2010. She has, in the past, filled top positions in industry, among them head of Koor Corporate VC and Koor Industries business development. She spends half her work week working for IVN and the other half as an adjunct lecturer at Tel Aviv University Business School.

I asked her to describe her three favorite social enterprises, funded by Yozma; she named Juha's Guesthouse, Susan's House and the fledgling Affordable Assistance Technologies.

"Juha's Guesthouse was started two years ago in one of Israel's poorest villages," she said, "in Jisr e-Zarqa [which in Arabic means the bridge over the Zarqa River],

population about 15,000. Last year, we believe 6,000 people came to Jisr, in large part due to Juha's Guesthouse, and eight new businesses related to tourists were started."

Many Israelis drive on the coastal road between Haifa and Tel Aviv and, as they pass, barely glance at Jisr and its poverty on the seacoast.

Ideally, in some future utopia, perhaps all worthy enterprises will have social goals, as well as quarterly earnings per share

Juha's Guesthouse was founded by Neta Hanien, mother of four and a former criminal prosecutor in the Justice Ministry, and Ahmed Juha, a tour guide and café owner from Jisr. Hanien's mother, a filmmaker, took Hanien with her when filming Jisr fishermen, and Hanien became enchanted with the village. She told the Israel21c website: "It reminded me of small, isolated, poor villages I'd seen abroad, and I knew that even one initiative to draw backpackers can turn the whole reality of a place around and make it into a tourism objective. I thought Jisr would be a perfect destination for travelers in Israel looking for an off-the-beaten-path experience on a low budget."

Hanien went door to door in Jisr looking for a partner until she met Juha. The guesthouse is in the building that houses his coffee shop. At the moment, the guesthouse can sleep 12, but there are plans to expand it to 20. The initial funds came from crowdfunding; the second round, from IVN.

Susan's House is a factory for making unique glass, jewelry, wood and ceramic crafts.

"It employs youth at risk, ages 15 to 18," Goren explained. "They are on the streets,

need money, they don't know how to show up for work on time or how to relate to bosses. They need a place to transition to a working environment. We teach them how to work, how to come on time."

Goren's third favorite social enterprise is Affordable Assistance Technologies (AAT), one not yet publicized.

"Many people with special needs have challenges that need technological solutions," she observed, "but investors don't invest in them. The market size, a half of one percent of the population, is too small. Entrepreneurs come up with ideas and then can't find funding."

An example of an AAT device is Voice-It, a voice-recognition smartphone application for those unable to speak understandably. The application learns to understand their speech and then repeats it clearly so others can understand.

IVN DEPLOYS some 100 mentors – experienced hi-tech executives who mentor social entrepreneurs. One of them, Yair Sakov, spoke about social entrepreneurship to my Entrepreneurship class at Technion. He began by quantifying the surprisingly large scale of NGOs (non-governmental organizations) in Israel; there are some 10,000 of them, with annual outlays totaling 52 billion shekels (\$14b.).

Sakov is a Susan's House and Juha's Guesthouse board member. He described how Susan's House invites visitors to learn craft skills; their fees provide a third of Susan's House's total revenue. He explained how Susan's House carefully measures its "social return on investment" (SROI), its social bottom line – 85% of participating youth enlist in the IDF or join the workforce and 87% of its graduates go to school. A new Susan's House branch has been established in Eilat, as the venture scales up, just as start-ups try to do.

Sakov described how Britain has pioneered in social businesses. There, 70,000 social businesses employ two million people. A 2004 act of Parliament gave legal

status to benefit corporations (“B Corp.”), which provide social benefits. Social businesses get preference in government tenders and taxation. Similar legislation is under discussion in Israel.

To Goren’s favorite three social start-ups, Sakov added another example: RavTech, which is supported by IVN. RavTech (“Where wisdom meets services”), based in Bnei Brak, is a software house that employs and trains Haredi programmers. Its annual income from software code sales was over half a million shekels in 2015, covering nearly 80% of its total expenses. Its SROI was measured by the number of employees and trainees, and mainly by the contribution of Haredi men to Israel’s gross domestic product when they join the job market rather than remain solely as yeshiva students.

For many years, large organizations have appointed Corporate Social Responsibility (CSR) managers. Their job is to do good, but always to ensure that the CSR efforts help the company to do well through good public relations and brand image. According to Maala, an NGO that promotes CSR in Israel, there are 150 CSR managers, of whom 50 are full-time in that job and 80% are women.

These CSR efforts are laudable, but I believe their impact is very limited, mainly because the ultimate focus of conventional for-profit companies remains profit rather than the double bottom line – social goals, as well as profit.

I SOMETIMES tell my MBA students in Israel and abroad about a brilliant American manager named Thomas B. McCabe, who led one of America’s first truly global companies, Scott Paper, for 39 years. McCabe had all his Scott Paper managers prominently display a plaque on their office walls: Whom do we serve? Our clients, our community, our nation, our workers, and our shareholders. In that order.

Why put shareholders last? McCabe was asked. Surely, in capitalism, they come first.

“If we serve the first four well, we will also, in the long run, best serve our shareholders,” was his answer.

But how many corporations, including those with CSR managers, preach and practice this precept? This is why we need social enterprises. If more CEOs had heeded McCabe’s vision, perhaps modern capitalism would not have such a bad reputation.

In Israel and abroad, charities are facing donor burnout. The growing needs of philanthropy and shrinking resources provided by government put incessant pressure on generous donors, who sometimes curtail their gifts as a result.

When social businesses set clear goals and measure their success, donors can see clearly what the impact of their gifts has been

Research conducted by Penelope Burk at Cygnus Applied Research Inc. investigated why donors stay loyal and give more generously to some causes while abandoning others. She found that “the majority of donors we studied said that indefinite loyalty was the product of receiving prompt and meaningful acknowledgment whenever they gave and getting meaningful and measurable results on their last gift at work before being asked for another one. Eighty-seven percent of study donors said that this is all it takes for them to be fully and indefinitely satisfied.”

All managers know that effective management begins with measurement. What you cannot measure, you cannot manage. This is increasingly applicable to social enterprises. When social businesses set clear goals and measure their success, donors can

see clearly what the impact of their gifts has been. This can help counteract donor burnout and foster donor loyalty and support.

THIS PRINCIPLE is the basis of an innovative idea called social bonds or “mitzva bonds” (see “Mitzva bonds,” June 1, 2015). Bonds are sold to raise money for social projects, and the government pays the bondholders in proportion to agreed measures of success. The first such bond was issued in Britain in 2010; it paid for a project to reduce criminal reconviction rates in the Peterborough prison by funding rehabilitation programs. Similar bonds have been sold in the US. The idea is to gain access for social projects to the enormous pool of money in global bond markets, estimated at \$100 trillion.

About 150 years ago, the American essayist and poet Ralph Waldo Emerson wrote, “Doing well is the result of doing good. That’s what capitalism is all about.”

If Emerson were alive today, I doubt he would still say that about modern capitalism. Business schools teach students how to do well, not how to do good. Nobel Laureate Milton Friedman, a free-market guru, once chastised companies for donating to charity saying that the money rightly belonged to shareholders. The title of his New York Times article says it all: “The social responsibility of business is to increase its profits.”

That is why there is such a pressing need for social start-ups with double bottom lines.

Ideally, in some future utopia, perhaps all worthy enterprises will have social goals, as well as quarterly earnings per share, and understand that managing in a socially benevolent manner – doing good for the community – is the most enduring and meaningful way to make money – doing well for shareholders. ■

The writer is senior research fellow at the S. Neaman Institute, Technion and blogs at www.timnovate.wordpress.com