Growing the Next Generation of Social Entrepreneurs and Start-ups in New Zealand

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Ian Axford (New Zealand) Fellowships in Public Policy

Established by the New Zealand Government in 1995 to reinforce links between New Zealand and the US, Ian Axford (New Zealand) Fellowships in Public Policy provide the opportunity for outstanding mid-career professionals from the United States of America to gain firsthand knowledge of public policy in New Zealand, including economic, social and political reforms and management of the government sector.

The Ian Axford (New Zealand) Fellowships in Public Policy were named in honour of Sir Ian Axford, an eminent New Zealand astrophysicist and space scientist who served as patron of the fellowship programme until his death in March 2010.

Educated in New Zealand and England, Sir Ian held Professorships at Cornell University and the University of California, and was Vice-Chancellor of Victoria University of Wellington for three years. For many years, Sir Ian was director of the Max Planck Institute for Aeronomy in Germany, where he was involved in the planning of several space missions, including those of the Voyager planetary explorers, the Giotto space probe and the Ulysses galaxy explorer.

Sir Ian was recognised as one of the great thinkers and communicators in the world of space science, and was a highly respected and influential administrator. A recipient of numerous science awards, he was knighted and named New Zealander of the Year in 1995.

Ian Axford (New Zealand) Fellowships in Public Policy have three goals:

- To reinforce United States/New Zealand links by enabling fellows of high intellectual ability and leadership potential to gain experience and build contacts internationally.
- To increase fellows' ability to bring about changes and improvements in their fields of expertise by the cross-fertilisation of ideas and experience.
- To build a network of policy experts on both sides of the Pacific that will facilitate international policy exchange and collaboration beyond the fellowship experience.

Fellows are based at a host institution and carefully partnered with a leading specialist who will act as a mentor. In addition, fellows spend a substantial part of their time in contact with relevant organisations outside their host institutions, to gain practical experience in their fields.

The fellowships are awarded to professionals active in the business, public or non-profit sectors. A binational selection committee looks for fellows who show potential as leaders and opinion formers in their chosen fields. Fellows are selected also for their ability to put the experience and professional expertise gained from their fellowship into effective use.

EXECUTIVE SUMMARY

We live in a time of epochal transformation. Complex and intractable 'wicked' problems such as poverty, unemployment, preventable disease and environmental degradation plague countries around the world, including New Zealand. The Global Financial Crisis and economic slow-down has led to tightening of public finances at the same time that these problems require truly novel solutions.

Boundaries between public, private, and non-profit sectors are blurring in the quest for better, faster, cheaper solutions. Social enterprise, a hybrid structure and emerging fourth sector, is accelerating in response to market turbulence. It is propelled by reduced government spending, pressure for interventions that demonstrate results, growing social consciousness by financial investors and a new generation of talented social entrepreneurs.

Simply stated, social enterprises use business models and tools for a social purpose. Social businesses trade products and services in the marketplace. They reinvest profits to advance the social purpose rather than distribute them to shareholders or owners. Social enterprises may achieve social impact more efficiently than government, more sustainably and creatively than not-for-profits, and more generously than business.

Trend lines show dramatic growth in social enterprise internationally. The UK is a leader with an estimated 68,000 social enterprises contributing £24bn to the economy. Australia's government and social finance providers recently invested $40 million AUD to stimulate the sector, estimated to include 20,000 ventures. In the US, the sector is estimated to be 3.5 per cent of GDP, with one-third of the increase taking place since 2011. JP Morgan predicts the global social impact investment market could reach US$1 trillion by 2020.

Governments actively catalyse social enterprise in places as diverse as Europe, India, Columbia, Senegal and the US. A 2013 report by Schwab Foundation for Social Entrepreneurship defines six policy drivers: engage market stakeholders; develop government capacity for action; build market infrastructure; prepare enterprises for growth; grow and direct private capital; and review and refine policy. According to the OECD, social entrepreneurship contributes to economic and social value, globally and locally. Governments need to improve enabling frameworks and overcome critical obstacles in order to leverage the potential.

Young people in particular turn to social enterprise, applying their passion for social change and technological savvy to develop start-ups. The Millennial generation, raised in an on-line environment, applies digital tools to take ownership over their role as students, consumers and citizens. They use open source platforms and diverse networks to create new products and services for social good. Tertiary education, when students are exploring their identity, values, capabilities and career paths, is uniquely suited to engage and develop young social entrepreneurs. Prominence on campus prompts increased resources and supports for students such as academic programmes, fellowships, business mentoring and research. They form multi-disciplinary start-up teams to test prototypes and develop robust business models, generating creative and viable ventures.

New Zealand's social enterprise sector is in its infancy even though there is a history of not-for-profits with trading operations and strong alignment with Māori culture and values. Social businesses, however, have few supports which makes it is quite

difficult for them to gain traction. There is no Government social enterprise policy or funding stream.

In spite of these barriers, social enterprise momentum is building. The philanthropic sector is eager to more actively support social enterprise as is the corporate sector, and both constituencies express openness to work with government to introduce an ecosystem framework. Incubators such as Enspiral and Hikurangi Foundation strive to build capacity. They are collaborating with Chalkle, an educational venture, to host Social Enterprise Week in Wellington in August 2013. The Auckland Policy Office, Auckland Council, ASB Community Trust and Auckland University of Technology are joining forces to catalyse the sector and build partnerships across the city. In Christchurch, the Ministry of Awesome and other community groups are igniting community involvement to create a world class city and EPIC (Enterprise Precinct and Innovation Campus) is leading efforts for an iconic innovation hub. Serial entrepreneur Linc Gasking launched Free Range Farm, a start-up, to multiply community-based innovation hubs. Many iwi and Māori organisations have successful businesses that provide social services, employment and dividends to tribal members. Treaty settlements provide additional capital to support new ventures for the benefit of the community.

To realise their potential, social enterprise start-ups need support from ideation to incubation, investments and expansion. They need a national support organisation to bridge networks, build capacity, broker funding and measure results. Hubs are needed in Auckland, Wellington, Christchurch, and elsewhere to connect and develop players locally, and across sectors, to build a national system of enterprise and innovation.

There is a compelling case that the time is right to commit to a growth strategy for social enterprise in New Zealand. In addition to international evidence for this, social enterprise aligns with major government priorities such as: outcomes-based service delivery, commitment to innovation, enterprise development and youth engagement. Collaborative cross-sector sector leadership is needed to develop a national framework. The Ministry of Business, Innovation and Employment is best suited to lead this charge because the delivery mechanism to launch and grow social enterprises is parallel to the system for business development. These are initial action steps:

- Collaboratively develop a national strategy and policy framework and network, in government and across sectors, to grow start-ups, capacity and investment-ready ventures
- Establish intermediaries and hubs
- Establish a $5 million to 10 million seed fund
- Elevate youth engagement and visibility of social enterprise nationally
- Promote social enterprise in tertiary institutions through papers, incubator fellowships, links to community resources, conferences and research

Social enterprise is on the cusp of taking hold in New Zealand and young social entrepreneurs will be on the leading edge of this change.

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PREFACE

I view social enterprise in New Zealand through the lens of my experiences, and I will share a few relevant highlights to clarify my perspective.

For 13 years I have led a consulting practice in the US in organisation and community development. Previously, I worked in business, government and for a national non-profit start-up. I frequently work with multi-institutional stakeholders who seek to create innovative solutions to achieve shared goals.

Several core values and beliefs are a foundation for my work:

- Organisations and communities are dynamic, interactive systems
- Clients and stakeholders are co-creators of changes that affect them
- Relationships are at the heart of meaningful work; effective partnerships are based on respect and trust
- Change models are contextual and are not easily replicated without deep respect for history, culture and other factors
- To be effective and innovative, people, organisations and communities must persistently learn and adapt.

In the years since the 2008 Global Financial Crisis, I have noticed a profound difference in how organisations responded. In spite of the obvious resource restraints, some leaders took an abundance posture. They leveraged the financial crisis to reconsider guiding assumptions and approaches. They focused externally on customer needs and partnerships to better serve those needs. Others seemed to take a scarcity approach; they fine-tuned their internal focus in light of reduced funding or markets, diminishing their portfolio. These different choices reflected distinct mind-sets, capabilities and actions. Some organisations successfully adapted, seizing new opportunities; others did not survive. Entrepreneurs seized market turmoil to launch new ventures, creating new business models with low costs and high market value.

During this same time period, I started mentoring students who were launching social enterprises at Brown University, based in Providence, Rhode Island. I was awed by the students' creativity, clarity of purpose, technological savvy, business acumen and results-orientation. I was captivated by their deeply collective approach to design and delivery and their proactive initiative to seek out mentors. They designed business models for their early stage ventures with careful attention to sustainability, growth and scale. I wondered if these were simply exceptionally bright, creative and hard-working students, or if they were inventing new approaches to social impact.

In 2012 I was invited to design a new academic course in social enterprise at Brown University. Brown's Social Innovation Initiative (SII) sponsors the C.V. Starr Fellowship annually for 10-15 students to grow a social venture, supported by $4,000 yearly and intensive skills training, coursework and mentoring. I was asked to develop a course geared to students who are launching social enterprises and seeking additional insights into their real-time business challenges, blending academic theory with practical applications. To prepare the syllabus, I researched best practices for academic courses and community-based capacity development programmes targeting early stage social venture incubation. I was astonished to discover that the crescendo of social enterprise interest at Brown was taking place all over the US and internationally. Young people are benefitting from an explosion of on-line resources,

accelerator programmes, and business competitions as they launch and scale new ventures all over the world.

With these recent experiences in mind, I started the Ian Axford Fellowship in February 2013, based at the Ministry of Social Development (MSD) in the Youth Policy group. It did not take long for me to realise that the social enterprise sector is quite immature in New Zealand. There are plenty of energetic community-based social enterprises, but they are remarkably fragile and there are few supports to stimulate growth.

The Director of Social Enterprise at Brown University told me that he discovered a similar phenomenon at the university when he arrived. There was exciting work taking place, but it was invisible to most stakeholders. His first priority was to "throw the sheet over the ghost." He needed to make visible the work that was taking place before he could enhance it. One of my primary goals in this report is to illuminate the social enterprise work that is already taking place in New Zealand.

This report focuses on strategies to more effectively engage and develop young social entrepreneurs, and supports to incubate innovative start-ups. Currently social enterprise's low profile and confusing identity means most young people are not even aware of the field. For those who are interested, there are few supports during tertiary education and fewer when they graduate. I aim to make the case that New Zealand's economic vitality and social well-being depend on engaging and supporting a new generation of social entrepreneurs. Given fiscal constraints, New Zealand cannot afford to ignore social entrepreneurship any longer.

This report is based extensively on action research. I reviewed relevant international academic literature and government reports; however, my assessment is extensively informed by my engagement with stakeholders from diverse constituencies who shared their time, knowledge and passion for the future of New Zealand. I am grateful to each of these contributors, and I hope you find that this report adds value to your work to create a more vibrant New Zealand.

INTRODUCTION

Global Epochal Transformation

We live in a time of epochal transformation. The Global Financial Crisis (GFC) demonstrated the interconnection and fragility of economic systems. Climate change is causing an increased number and severity of extreme weather events that result in disastrous social impacts. Technology changes the way we access each other, ideas and data, virtually redefining how we think about knowledge and market value.

Amidst this turbulence, nations are grappling to address intractable long-term social, economic and environmental challenges, often called 'wicked problems'. The GFC, and subsequent economic slowdown, has led to a tightening of public finances at the same time as these complex problems require truly innovative solutions. Government aims to identify and invest in powerful levers for change since there are fewer resources to have an impact on worsening conditions.

New Zealand faces its own wicked problems. Poverty, housing shortages, suicide, unemployment and preventable disease are some of the country's highest priority challenges. Māori and Pacific Islanders face disproportionate economic and social obstacles, with lower life expectancies and incomes compared with the overall population. This is in addition to their higher levels of crime, health problems and educational under-achievement. According to a report by the Organisation for Economic Co-operation and Development (OECD), the quality of life in New Zealand is being significantly harmed by the gap between the richest and the poorest.[1]

Boundaries between public, private and non-profit sectors are blurring in the quest for better, faster, cheaper solutions. Government has a critical stake in new business models that provide public benefits. Not-for-profit[2] organisations are becoming more market-oriented while businesses are working harder to benefit communities as well as stockholders. Scholars and practitioners are observing the convergence of market and mission throughout the world and are trying to find a common language to describe this burgeoning area of activity so it can be better understood and harnessed.[3]

Bill Gates, founder of Microsoft, called this shift, 'creative capitalism.' He stated, "We can make market forces work better for the poor if we develop a more creative capitalism – if we can stretch the reach of market forces so that more people can make a profit, or at least a living, serving people who are suffering from the worst inequities."[4] Harvard Business School professor Michael Porter advocates that capitalism has betrayed its promise by focusing on a narrow equation of value with short-term economic returns. Businesses should pursue "shared value," generating both economic value and creating a value for society by addressing its challenges.[5]

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[1] OECD Better Life Index (2013)
[2] I use the term not-for-profit broadly based on the international definition provided by the Charities Commission http://www.charities.govt.nz/faqs/general/or non-profit (97,000 NFP and 25,000 registered charities)
[3] Mosher-Williams, R. (2006)
[4] Gates (2007)
[5] Porter and Mark (2011)

What is Social Enterprise?

Social enterprise is a new approach to social change and economic development that is gaining traction across the globe. It is an organisational structure and is emerging as a fourth sector. This hybrid model is attracting growing interest by governments, entrepreneurs, investors, social activists, young people and established businesses in developed and developing countries alike.

Internationally, there is no precise or agreed upon definition among governments, academics or practitioners. There are related terms such as social economy, social entrepreneurship, social innovation and others that add to the confusion. I aim to describe social enterprise as clearly and practically as possible, respecting that there are diverse interpretations that are constantly evolving.

Bill Drayton popularised the term social entrepreneurship in 1980, the year he founded Ashoka, a global leader in the field.[6] Though the term is recent, it is not a new phenomenon. French economists in the 18th century described the entrepreneur as a key driver of growth in economic value through innovation. Researchers trace the European origins of social enterprise to medieval worker guilds and later co-operative movements that stressed working together for a common social and economic purpose.[7] In New Zealand, Māori co-operative structures and cultural traditions were precursors to social enterprise. The purpose of Māori enterprise was to provide for the needs of the community.[8]

The usage of the term social enterprise started to grow in the 1990s to describe organisations using business models to bring about social and environmental change. The UK-based Social Enterprise Coalition's definition is one of the simplest: a business trading for a social purpose.[9]

I present the following core attributes to describe a social enterprise:[10]

1. Intent – the fundamental purpose is to address a social or environmental problem, often focusing on the root of a market or system failure rather than the symptom. This purpose is set out in governing documents
2. Business model – employ business models, skills and tools to develop products and services traded in the marketplace
3. Profits – reinvest profits to advance the social purpose, as distinguished from standard businesses that are structured to earn profits for owner or shareholder value
4. Ownership and control – a controlling stake should be held in the interest of the social or environmental mission. This criterion is becoming increasingly complicated because of evolving models of investment based on equity and shareholding

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[6] Ashoka: Innovators for the Public https://www.ashoka.org
[7] Jennings (2012), page 32
[8] Dey and Grant (2013)
[9] The Four Lenses Strategic Framework (n.d.) http://www.4lenses.org/setypology
[10] I draw these attributes from many sources. A primary reference is Social Enterprise UK, http://www.socialenterprise.org.uk/uploads/files/2012/04/what_makes_a_social_enterprise_a_social_enterprise_april_2012.pdf

5. Accountability and transparency – legal forms and requirements vary. Transparent reporting for financial, social and environmental results is essential

6. Scale – aim to scale what works through growth or replication.

Social enterprises measure success using multi-faceted criteria. The so-called triple bottom line was originally introduced to help businesses consider their social and environmental impact in addition to economic value. A similar tripartite measuring system – people, planet, and profit – was later adopted by the third sector.

There is still much to learn to create a coherent and accurate evaluation of social impact. Two leading impact investment firms, Acumen Fund and Root Cause, use three measurement variables that they compare and track over time: type of impact; scale of impact; depth of impact.[11]

Australian Jon Hawkes introduced culture as a fourth factor measuring community well-being, complementing social equity, environmental sustainability, and economic vitality.[12] New Zealand's Local Government Act of 2002 included this measure and was heralded for adding the cultural dimension because it encompassed government obligations under the Treaty of Waitangi.[13]

Four components of community sustainability[14]

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[11] McCreless and Trelstad (2012)
[12] Hawkes (2001)
[13] Local Government Act (2002)
[14] New Zealand Ministry for Culture and Heritage (2006), page 5

Social enterprises fit into a continuum:
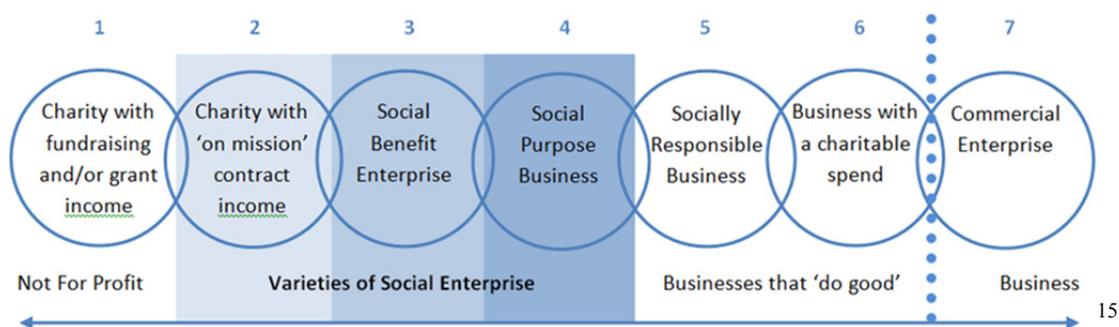
Private businesses that are accountable to produce profits for owners or shareholders are not social enterprises even though they may engage in social purposes. For instance Google's philanthropic arm google.org works collaboratively to address global challenges such as outbreaks of infectious diseases, but it is not a social enterprise because it is accountable to maximise profits for its shareholders. Some practitioners fear that private business will co-opt the term social enterprise to position brands as socially responsible. They propose adopting standards, similar to fair trade or eco-labels, to protect and inform consumers.

Not-for-profits that are exclusively funded by government and/or philanthropy are not social enterprises. There are many not-for-profits that formed trading operations years ago primarily to diversify income streams and strengthen financial stability and sustainability. The term earned income described these operations. These organisations may not self-identify as social enterprises, especially if the trading operations are a small per cent of overall revenue. In some countries government and intermediaries dictate criteria to define social enterprises. For instance, the Social Enterprise Mark in the UK requires a social enterprise to earn at least 50 per cent of revenue from trading or, for a start-up, a pledge to reach this goal within 18 months.[16]

The New Zealand Department of Internal Affairs (DIA) adopted criteria based on Social Traders in Australia for a 2012 survey of social enterprises, as follows:[17]

- the organisation has a social, cultural or environmental mission
- trading comprises 50% or more of income (25% if they have been operating three to five years; or a lower percentage if they are new and can demonstrate an intention to trade)
- majority of profit/surplus is reinvested in fulfilment of the mission.

I do not think that these restrictive criteria need to be adopted in New Zealand at this point in time. Social enterprise is in its very early stage, and it is advantageous to endorse a broad, inclusive definition to grow the sector until it matures.

Social Enterprise Sector

Social enterprise is gaining an identity as an emerging sector. The US Social Enterprise Alliance describes this hybrid as the "missing middle." Social enterprise

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[15] Adapted from Mitchell, Kingston and Goodall (2008)
[16] Social Enterprise Mark, http://www.socialenterprisemark.org.uk
[17] Social Traders Australia (n.d.), http://www.socialtraders.com.au

may achieve social impact: more efficiently than government, which no longer has the mandate or resources to solve every problem; more sustainably and creatively than not-for-profits, which face declining funding streams and pressure for results; and more generously than business, which is mandated to maximise shareholder returns.[18]

Organisations categorized by PURPOSE

maximise financial benefit to owners   maximise social benefit

Organisations categorized by INCOME

earned

| FOR-PROFIT | → CSR, ESG, Sustainability → | SOCIAL ENTERPRISE |

Business Methods
Entrepreneurship
Public Private Partnerships
Privatization etc.

↑

| | NON-PROFIT / GOVERNMENT |

contributed
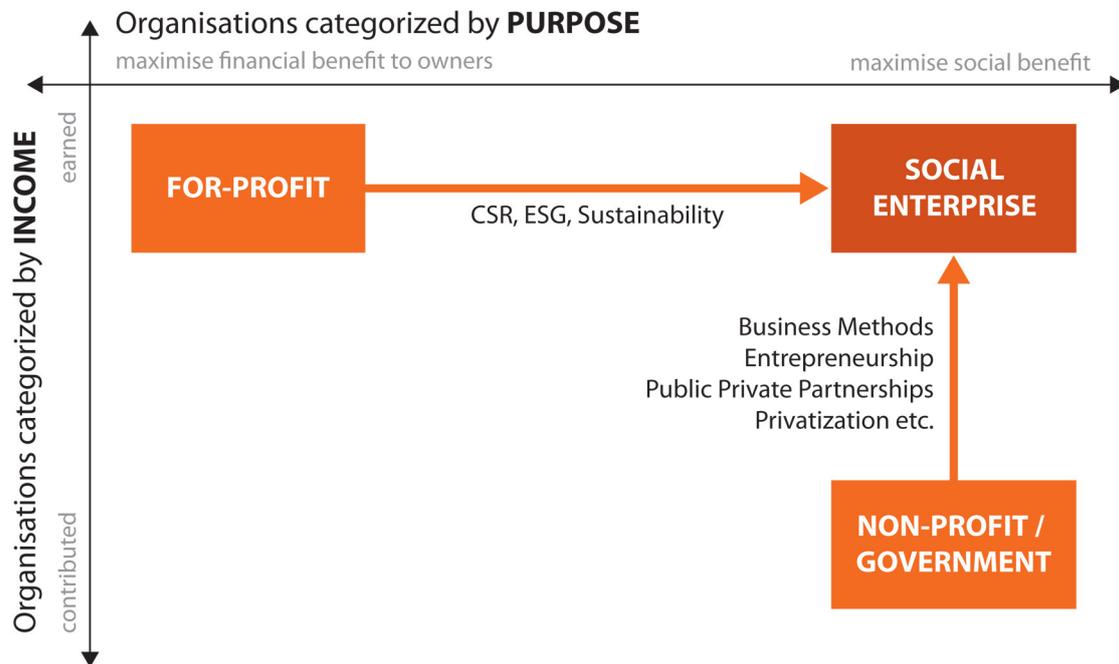
The benefits of social enterprise include:

1. Achieve better social outcomes, faster, cheaper
   - Persistent learning and adaptation maximises innovation
   - Business systems drive efficiencies and reduce need for state and philanthropic funding
   - Diverse investments to scale what works
   - Holistic partnerships; brand and organisation protectionism are secondary to impact.
2. Sustainable
   - Revenues primarily generated by trading
   - Business acumen produces results and increases access to capital
3. Create employment, wealth and economic development, especially for people who are marginalised or excluded from labour markets such as people with mental health issues, refugees and others.
4. Engage and empower residents to lead community change.

Thriving sectors depend on an ecosystem that encourages, supports, and invests in the desired practices. According to the OECD, social entrepreneurship is contributing to the creation of economic and social well-being, especially for its capacity to address, in innovative ways, global and local social challenges. Governments need to improve

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[18] Social Enterprise Alliance (n.d.), graphic adapted by Chloe Waretini (2013)

enabling frameworks and overcome critical obstacles in order to leverage the development of the sector.[19]

Social Entrepreneurs and Social Entrepreneurship

I use the term 'social entrepreneur' in this paper to mean people who pursue the formation and development of a social enterprise. There is not agreement about whether the term refers explicitly to the people who start new ventures or whether it includes a broader group of people who participate in the field. A social entrepreneur is not necessarily the founder of a venture. A founder is the person, or persons, who initially transform an idea into a new organisation. Ventures rely on teams of people, paid and unpaid, who actively contribute and are also considered social entrepreneurs. Similar to other professional roles, there are competency profiles that describe qualities for social entrepreneurs. Typical competencies are: action oriented; able to deal with ambiguity; interpersonal savvy; versatile learner; compelling vision and purpose; perseverance; self-knowledge; and tolerance for risk.[20]

A 'social intrapreneur' refers to a person who works in a large organisation such as a corporation or government agency and aims to influence the entity to be more socially and environmentally oriented. A 2008 study described "a new breed of social entrepreneur within big business – the social intrapreneur. These corporate change-makers work inside big business, often against the prevailing status quo, to innovate and deliver market solutions to some of the world's most pressing social and environmental challenges."[21]

Social entrepreneurship is the broadest of these related terms. This term is commonly used to describe the broad collection of people and organisations that are engaged in social change and innovation. In this report, I use the term social entrepreneurship broadly.

Social Innovation

Social innovation and social enterprise are two different paradigms that share a culture of challenging the status quo, taking risks, continuous improvement, creativity, customer-centred design-thinking and entrepreneurial drive. Leadbeater described the differences in a report to the UK Government:[22]

> All innovation involves the application of new ideas – or the reapplication of old ideas in new ways – to devise better solutions to our needs. Innovation is invariably a cumulative, collaborative activity in which ideas are shared, tested, refined, developed and applied. Social innovation applies this thinking to social issues: education and health, issues of inequality and inclusion.
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> Social enterprise offers a new way to do business that is animated by a social purpose. The sector has attracted growing interest from policymakers, young people, entrepreneurs, funders and established businesses.

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[19] OECD (n.d.)
[20] Lepson (2009)
[21] Sustain Ability (2008) http://www.sustainability.com/library/the-social-intrapreneur?path=library/the-social-intrapreneurs
[22] Leadbeater (2007)

Social innovation is cross-disciplinary and occurs within and between existing institutions including business, public sector services and community organisations. It may involve innovation in service design, delivery, system design, organisational form or partnership. Social enterprise is more specifically about business model innovation for social impact.

Open source technologies and digital advancements mean individuals can innovate from anywhere quickly and rapidly. Most new products spring from people trying to solve a problem that is important to them, rather than large corporate design labs or marketing departments.[23] Technology democratises access to tools that can be used creatively and collaboratively at the click of a button. The sheer volume and range of experiments demonstrate a rapidly growing population of problem solvers with access to the tools to turn their ideas into commercial products and/or solutions to social or environmental challenges. Clay Shirky, author of *Cognitive Surplus* writes, "our best chance of finding good ideas is to have as many groups as possible try as many as possible. The future doesn't unfold on some preordained track; things change because someone figures out something that is possible right now and pushes to make it happen."[24]

Young people in particular are creating new products and services daily, leveraging emerging technologies and social networks. They apply their ingenuity to commercial and social applications, often at the same time. The emerging generation of young adults like to be independent and are likely to follow career paths that criss-cross commercial, social and environmental ventures.

International Framework

Social enterprise is growing across the globe in developed and developing countries. There are an estimated 68,000 social enterprises in the UK, contributing £24 billion to the economy and employing 800,000 people.[25] Australia estimates it has 20,000 such ventures, and recently there was an infusion of $40 m AUD, half contributed by government, to finance their growth and development.[26] In the US, social enterprise is estimated to be 3.5 per cent of the GDP with one-third of this happening since 2011. The European Commission signed off on £92.28 million to improve access to funding for social businesses.[27] India is investing $1 billion in social innovation with dollar for dollar government match. JP Morgan predicts that the global social impact investment market could reach US$1 trillion by 2020.[28]

The dramatic growth in social enterprises internationally is due to a confluence of factors: emphasis on evidence-based interventions, growing consciousness among investors, a new generation of talented social entrepreneurs and reduced government spending.[29] Schwab Foundation for Social Entrepreneurship and World Economic Forum recently produced a policy guide focused on growing social innovation. Governments all over the globe are developing public policies to mobilise effective resources for sector growth. Governments are taking a range of actions to catalyse

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[23] Lidgren (2013), page 22
[24] Shirky (2011)
[25] Department of Business, Innovation and Skills UK (2011) page 15
[26] Social Traders (2009)
[27] European Commission (n.d.) http://ec.europa.eu/internal_market/social_business/index_en.htm
[28] JP Morgan Impact Investments (2010), page 11
[29] Schwab Foundation for Social Entrepreneurship (2013), page 6

markets, leverage collaborative investment with private investors, support capacity building and technical assistance, enable hubs and set tax and regulatory policies that remove barriers.[30]

Perhaps the most well-known social enterprise is Grameen Bank.[31] The Bank and its founder, Muhammad Yunis, won the Nobel Peace Prize in 2006. Grameen Bank provides micro-credit to poor, rural women, 96% of its 8.35 million borrowers. It employs 22,124 people and dispersed US$11.35 billion loans with US $10.11 billion repaid. Grameen Bank is an example of a disruptive innovation that radically transformed its industry[32]. iDE is another disruptive social enterprise. Seventy per cent of the world's poorest people are small farmers and iDE works with these farmers in Africa, Asia and Latin America to invent low-cost tools, such as clean water systems, to increase productivity and generate cash income.[33] Veo Eyewear uses a sustainable business model to provide glasses to 1.3 billion people who cannot afford them.[34] These are just a few examples of cutting edge social enterprises.

Why Focus on Youth and Start-ups?

Millennial Generation

Much has been written about the generation that is coming of age and entering the work force. Variously known as Millennials, Gen Connect or Gen Innovate, there is widespread consensus among educators, marketers and policymakers that digital technologies have given rise to a new generation of students, consumers, and citizens who see the world in a different way.[35] Growing up with the internet, it is argued, has transformed their approach to education, work and politics.[36]

Chronic unemployment since the GFC is also influencing young people's work expectations and career choices. A recession raises youth joblessness disproportionately; the number of young people without a job has risen 30% since 2007.[37] With limited employment prospects and a barrage of negative media messages about work, more young people are poised to pursue self-employment.

A recent international survey illuminated attitudes toward work among Millennials.[38] Freedom is the pre-eminent priority. Millennials prefer to work whenever they like (92%) and wherever they want (87%). They view entrepreneurship as a mind-set. This generation, defined by instant digital access, mobile phones and global awareness, has

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[30] Ibid page 7
[31] Grameen Bank (n.d.) http://www.grameen-info.org
[32] Disruptive innovation is a concept first introduced by Clayton M. Christensen in *The Innovator's Dilemma* to describes fundamentally different products or services that disrupt existing markets and displace formerly dominant technologies
[33] iDE (2013) 30 Years: Cultivating Potential
[34] Veo Eyewear (n.d.) http://www.veoeyewear.com
[35] Generational cohorts are names and attributions made by demographers, marketers, academics and others. The generation born roughly between 1982 and 2004 has numerous names such as Millennials, Net Generation, and Gen Y. The generation currently in tertiary education are born approximately 1990 – 1996. This emerging cohort is labelled Gen Z, Digital Natives, Generation@, iGeneration.
[36] The Economist (2010)
[37] The Economist (2013)
[38] Lesonsky (2013)

the inclination and the tools to co-create new products and institutions that better match their dreams for the future.[39]

Millennials are New Zealand's future professionals, innovators, entrepreneurs, government officials and community leaders. Today's education and training will influence their capabilities, their career choices, their success and even their decision whether or not to continue to live in New Zealand. Social enterprise is one pathway to capture the imagination of young people and channel their talents.

Tertiary Education is an optimal stage to capture a young person's idealism and entrepreneurial spirit. Students are open to new experiences, testing interests and honing their capabilities. They are inclined to take risks. Spontaneous conversations and connections spark ideas that lead to new ventures and career paths. All over the world, students who excel are turning to social enterprise.

Enterprise Matters

Approximately 30 per cent of young people pursue tertiary education in New Zealand. For many of the others, starting a social enterprise is likely a luxury they can ill afford. But it is wrong to assume that school leavers, disadvantaged youth and others do not have the aptitude or desire to be entrepreneurs. Youth from all backgrounds are experimenting with technology, and enterprise as an outlet for their imagination and income.

Small and medium sized enterprises (SMEs) account for 97 per cent of all enterprises in New Zealand.[40] Those with fewer than 50 employees create nearly half of all jobs, contribute over a third of the country's Gross Domestic Product, and are increasingly engaged in innovation activity and exporting.[41] Data indicate that a growing number of young people seek to start their own business.[42]

Percentage by age group who want to start up their own or a new business

	20-29	30-39	40-49	50-59	60+
2010	29	25	21	15	7
1998	17	15	13	9	4
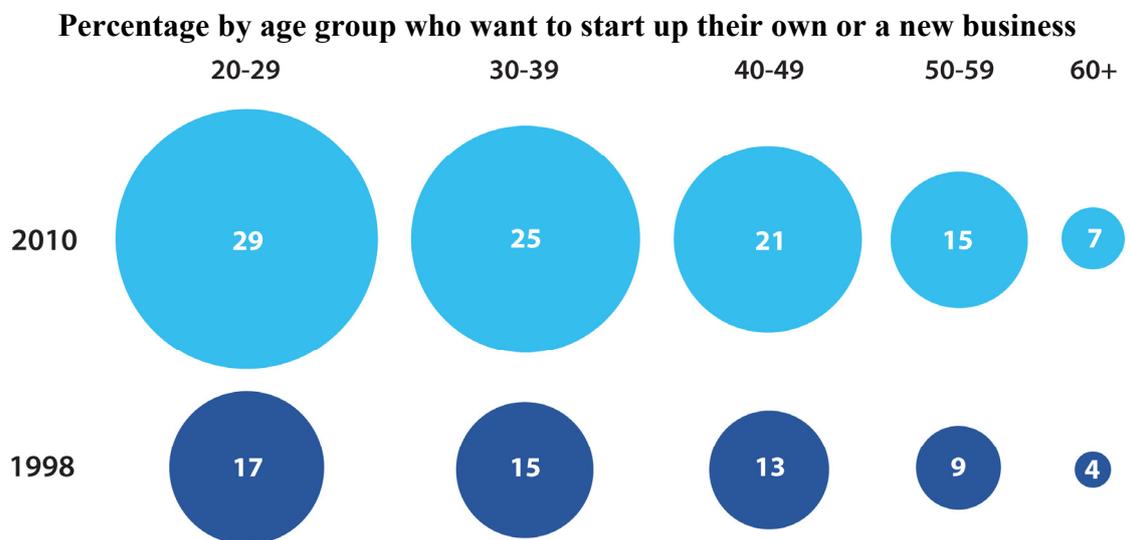
It may seem odd in a paper on social enterprise that I have devoted attention to enterprise education in secondary school. Evidence suggests that many young people are motivated to pursue enterprise, regardless of their background, if they are exposed

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[39] Bernholz (2013)
[40] Ministry of Business, Innovation and Employment (2013)
[41] Small Businesses in New Zealand: how do they compare with larger firms (2013)
[42] Lent, page 29. Graphic adapted by Chloe Waretini (2013)

to it. Ethnic minorities seize product or service ideas that connect them to their native culture and transform them into viable businesses. Teens, exposed to computers and smart phones, have a proclivity to experiment with technology. Youth develop apps, design and sell apparel on-line and invent other products with commercial value. Secondary school can be a launching pad to prepare a new generation of entrepreneurs, both commercial and social.

1   A SCAN OF SOCIAL ENTERPRISE IN NEW ZEALAND

This overview is based on a broad scan of social enterprise in New Zealand from early 2013. I interviewed over 200 people, attended three national conferences,[43] visited communities and organisations across the country, reviewed relevant literature and researched government priorities. I engaged stakeholders from remarkably diverse perspectives including: social enterprise start-ups and hubs, mature not-for-profits, philanthropy, local and national government, Māori organisations, business, private investment, enterprise development, education and research (students, administrators, teachers and administrators) and consulting.[44] My research focused on start-ups in part to complement Di Jennings' two-year investigation into the social enterprise sector for New Zealand Community Economic Development Trust that will be synthesised in a report due later this year.[45]

Social enterprise in New Zealand is immature and somewhat stalled in stark contrast to momentum taking place internationally. The field lacks a clear identity, recognition and credibility. Social enterprise suffers from a stigma in government left over from a public relations scandal in 2004.[46] Ecosystem supports are negligible. Social enterprises tend to be small and severely under-resourced.

Social enterprise is barely on the government radar today. I identified these few sporadic initiatives. The Department of Internal Affairs (DIA) conducts research and some training. The Office of Ethnic Affairs also conducts periodic training. The Ministry of Health and The Treasury are scoping the feasibility of a social impact bond. In June the urban chief executives group formed a working group to develop a policy for Auckland. The Ministry of Youth Affairs is exploring opportunities to promote social enterprise. The Ministry of Social Development (MSD) initiated an innovative pilot, Lifehack, to engage youth to prototype technology tools to address mental health.

New Zealand has few capacity-building resources in social enterprise. The New Zealand Centre for Social Innovation and its school closed in April. Lyndsay Jeffs offers occasional training programmes and Enspiral sponsored an intern programme this year. The Hikurangi Foundation supports a select group of sustainability ventures and conducts fee-for-service training. This absence of capacity building may be the sorest gap in the social enterprise ecosystem given the emergence of early stage ventures.

The philanthropic sector is gaining interest in social enterprise, though cautiously. It was a prominent topic at the Philanthropy New Zealand conference that 350 people attended in April 2013. Funders have been making grants to organisations with business ventures for a long time, often investing in innovation rather than specific social businesses. Perhaps the next level of engagement will be to influence government and business partners to join forces to coordinate more strategic investments to grow the ecosystem and not just fund organisations. This is beginning

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[43] Non-profit in Wellington (February); SOCANZ (Social Capital New Zealand) in Auckland (March); Philanthropy New Zealand in Wellington (April)
[44] See appendix for listing
[45] Jennings (2012)
[46] http://www.massey.ac.nz/~cprichar/OIL/OIL3%20papers/Grant_Social%20Enterprise%20in%20 Aotearoa%20New%20Zealand.pdf

to happen in Auckland where ASB Community Trust is actively working with key partners to scope needs and map a strategy.

Many not-for-profits have had trading operations as a source of income for decades. The Salvation Army, founded by William Booth in Victorian Britain, was a pioneer of social enterprise.[47] Its Family Stores in New Zealand are well known, and proceeds from sales fund community programmes.[48] Whale Watch Kaikoura was created by a Māori family who mortgaged their house to create local employment when railway restructuring led to unemployment.[49] The Elevator Group, based in Auckland, celebrated its 35th anniversary last year. This social business provides supported employment choices for people with disabilities. The Malcam Charitable Trust, founded in 1998, supports young people and fosters employment in Dunedin. The Trust has launched many successful social enterprises including Dunedin ReStore, Four Trades Apprenticeship, and Malcam Botanic. Community Business and Environment Centre (CBEC) was formed in Kaitaia in 1989 in response to the dramatic rise in unemployment and social problems arising from economic reforms. Today CBEC employs approximately 70 full-time staff in a number of businesses and joint ventures, including waste management, recycling, labour hire, transport, home insulation, nursery and environmental education.[50]

These are just a few examples of mature not-for-profits that have operated social businesses long before the term social enterprise entered the lexicon. There are no reliable data to determine how many not-for-profits have trading operations in New Zealand. DIA conducted a baseline survey in 2012.[51] Among the 421 respondents, 43 per cent of the social enterprises work in education and training, 22 per cent in social services, 17 per cent in recreation and sport, and 15 per cent in arts and heritage. Approximately five per cent of the respondents are affiliated with Māori authorities. Seventy-five per cent of the respondents indicated that they had been operating more than ten years. Perhaps older organisations are more likely to meet the 50 per cent trading threshold. Fifty-two per cent of the respondents are charitable trusts and 37 per cent are incorporated societies. Only seven per cent of survey respondents are limited liability companies. I suspect that the sector is much more widespread than this baseline survey indicates. It will be important to conduct on-going research to more accurately map and analyse the sector.

Internationally, there is pressure for corporations to assume more ownership for social and environmental needs. For example, Sir Richard Branson and 15 prominent international business leaders recently launched the B Team to put people and planet alongside profit.[52] However, the New Zealand business sector is not currently playing an active role in social enterprise, though many companies are evolving their corporate responsibility efforts to be more strategic and partnership-oriented which is promising for potential collaboration with social enterprises.

In spite of this discouraging picture, there are reasons to be optimistic. I have witnessed a huge amount of interest in the field. Start-ups launch regularly and many

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[47] Hutchinson (2011), page 120
[48] Salvation Army (2012), page 24
[49] Social Enterprise Network for NZ (2012)
[50] Community, Business and Environment Centre (n.d.)
[51] Department of Internal Affairs (2012) http://www.dia.govt.nz
[52] The B Team (n.d.), http://Bteam.org

of the designs are quite inventive. Social enterprises operate in a diverse spectrum of industries from education and employment to arts and health.

Enspiral is a growing social enterprise hub based in Wellington with a technology focus that is incubating new enterprises with substantial promise for international scale.[53] Enspiral is partnering with Hikurangi Foundation[54], another intermediary organisation, and Chalkle[55], a social enterprise, to sponsor Social Enterprise Week and Start-up Weekend in August 2013. Enspiral was recently contracted by MSD to partner with Lifehack to assess and develop product proposals. Serial entrepreneur and investor Linc Gasking recently launched Free Range Farm to incubate 1000 social impact start-ups and social innovation hubs across the country. US entrepreneurs purchased five lifestyle blocks in Upper Hutt with plans to explore leading edge sustainability technologies. Local government is gaining interest in and support for social enterprise, most notably in Auckland and Wellington. Auckland Council hired dedicated social enterprise staff, and when I met with Mayor Brown he expressed a strong interest in growing social enterprise in the region.[56] The Christchurch rebuild also provides a unique opportunity for social innovation and social enterprise.

Māori historical values, traditions and structures link enterprise and social good. In pre-European times, Māori business was aimed at providing for the physical, social, and spiritual well-being of whānau, hapū and iwi groups as well as protecting and building the resource base.[57] Today, many Māori businesses can be considered social enterprises even though this term is rarely used to describe them. In particular, iwi that negotiated settlements with the Crown are positioned to build Māori enterprise capacity. Business and Economic Research Ltd (BERL) estimates the Māori economy at $36.9 billion in 2010.[58] The Māori economy is likely growing faster than the New Zealand economy as a whole which could create enormous opportunity for new, culturally sensitive social businesses.[59]

Barriers Preventing the Development of Social Enterprise

It is complicated to isolate specific factors that are hindering the development of social enterprise in New Zealand. The timing has not been propitious for social enterprise in New Zealand to date. These may be some reasons:

1. Christchurch rebuild – the earthquakes took place just as social enterprise was beginning to gain traction. Government leaders, philanthropy and even the public at large appropriately shifted attention and investment.
2. Government focus[60] – in addition to the Christchurch rebuild, the government has established clear social and economic goals that include reducing public spending and transforming public service. Social enterprise may seem tangential given the scope of these priorities and rampant restructuring. As I propose in this report, social enterprise is a delivery system, a new framework and institutional form that is clearly aligned with these Government priorities.

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[53] http://www.enspiral.com
[54] http://hikurangi.org.nz
[55] http://chalkle.com
[56] Personal communication (16 April 2013)
[57] Māori Business: Historical Context (2011)
[58] http://www.berl.co.nz/in-focus/maori-economy-burden-or-taonga
[59] O'Neil, R. (21 April 2013)
[60] State Services Commission (2013)

3. Role of public sector – Social enterprise is likely to remain stalled without government leadership. In the absence of large reserves of private wealth and a tradition of charitable giving, the state has become New Zealand's largest philanthropist and social enterprise is not likely to gain traction without commitment from the state.[61] In addition, the public service is criticized for being risk averse and poorly positioned to innovate. "Chronic lack of innovation in our public sector has led to declining efficiency, poorer services and a loss of value."[62] The public sector requires a culture change that tolerates failure, encourages creativity and embraces new ideas.

4. Fragmentation – A whole system framework is a mind-set, culture, strategy and structure. New Zealand institutions are remarkably fragmented. Government is working to break down barriers within the public service and there also needs to be much more cross-sector collaboration. The gulf between the business and social sectors is particularly acute. The scarcity of intermediary organisations impedes opportunities to build relationships and structures across sectors.

5. Size and location – New Zealand's small size presents many challenges, especially small markets. Place-based enterprises struggle with scale in many communities. Technology platforms diminish but do not eliminate these obstacles.

Alignment of Social Enterprise and Government Priorities

Social enterprise can be a vehicle for achieving many government priorities.

1. Social outcomes – The MSD programme Investing in Services for Outcomes (ISO) is part of the broad government shift to give service providers more independence based on shared agreements for results. Social enterprises fit well in this framework.

2. Innovation – Innovation is a hallmark of New Zealand's business strategy as well as a contributor to the other top priorities.[63] The key to doing more with less lies in productivity, innovation, and increased agility. Government agencies need to change, develop new business models, work more closely with others and harness new technologies in order to meet emerging challenges.[64] The essence of social enterprise is to create whole new models to achieve greater social impact through innovation.

3. Employment – Boosting skills and employment is one of the government's Better Public Service goals. There is growing evidence that social enterprise is an effective intervention to successfully support people who are marginalised to develop skills and confidence to move out of state dependency and into meaningful employment.

4. Economic development – Globally local governments embrace social enterprise as a viable contributor to the economy. Social businesses create both social and economic value, and technology platforms enable international markets.

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[61] Tennant (2007), page 9
[62] Innovation in Government, page 2
[63] Building Innovation, page 6
[64] State Services Commission (2013)

5. Sustainability – Social enterprises are poised for financial independence based on market-oriented business models.

6. Community and resident empowerment – The Social Sector trials[65] and many other government projects encourage communities to take local ownership. Social enterprises thrive in active communities and also contribute to community building.

7. Partnership and collaboration – The state seeks to enhance synergistic partnerships within government and across sectors. Partnership is a core value of social enterprise and the hybrid structure facilitates new linkages between business and civic society.

Lifehack Case Study – A Government Pilot

Lifehack is a pilot project based at the Ministry of Social Development that aims to use innovative business approaches to tackle a serious social challenge – youth mental health. The rationale was to engage young people to invent digital tools to help adolescents confront mental health challenges. Family and Community Services (FACS), the sponsor, engaged innovator Jason Armishaw to run the pilot project. Jason leads start-up weekends, a global model to bring together diverse teams to probe problems and design products and services to solve them.[66] In 48 hours, teams develop a value proposition, test assumptions, conduct market research, consult with mentors, and pitch a final proposal. Often investors select projects for seed funding.

Lifehack piloted start-up weekends in Auckland, Wellington, Christchurch and Dunedin in April and May 2013 to develop tech tools to help youth better deal with mental health challenges. I attended the Wellington Lifehack. Participants, mostly university students, were recruited exclusively using social media. The weekend was an intense process that evolved from idea generation to frantic feedback, iteration and redesign. The productivity and creativity of the participants was electric. I was particularly impressed by how they tested early versions of their product ideas with teens, potential customers, using social media and taking to the streets.

I was also impressed by the mentors, social entrepreneurs who donated pro bono time and talent to support these young people and this pilot programme. This type of coaching from seasoned business developers is a critical mechanism for speeding up the learning process and weeding out the 'wannabe' designers from those with a proclivity for the gruelling work of product development.

Ten product ideas were selected for incubation. Lifehack engaged Enspiral as a partner to test product viability. Several corporates are interested to help get products to market. This public-private partnership is an exciting lab to train young social entrepreneurs and develop products with potential global value.

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[65] Joint pilot that involves the Ministries of Education, Health, Justice and Social Development, and the New Zealand Police to change the way that social services are delivered. The Trials test what happens when a local organisation or individual co-ordinates cross-agency resources, local organisations and government agencies to deliver collaborative social services.
[66] Startup Weekend (n.d.) http://www.startupweekend.co.nz

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2 PREPARING YOUNG SOCIAL ENTREPRENEURS

A popular Māori proverb says people are the most important thing in the world. 'He Tangata! He Tangata! He Tangata! It is people, it is people, it is people'. There are programmes all over the world to identify and support promising young people to become social entrepreneurs. For instance, Ashoka, founded in 1980, identifies leading social entrepreneurs across the world and supports them to build their institutions and spread their ideas. They provide fellows a global support network for life.[67] Ashoka is scoping a potential role in New Zealand to support social entrepreneurs.

Start-ups begin with people and ideas. New Zealand has an opportunity to inspire young people of all backgrounds to consider a future as a social entrepreneur and to offer developmental stepping stones on that journey. Investing in young social entrepreneurs achieves several purposes:

- develops socially engaged citizens who will contribute to more vibrant communities
- empowers young people to help solve the glaring issues they and their communities face
- trains a generation of entrepreneurs and innovators to grow new business and economic development.

What is the right age to introduce young people to the attitudes and skills that create entrepreneurs and social innovators? Tony Wagner in *Creating Innovators* declares that the building blocks start at birth. He profiles several young innovators who come from diverse backgrounds yet share common experiences. They have supportive parents and mentors who encouraged their passions even when they bucked the tide of traditional institutions. Many of them dropped out of university. They are in good company. Some of the world's most successful innovators dropped out of school such as Bill Gates (Microsoft), Mark Zuckerberg (Facebook), Steve Jobs (Apple) and Sir Richard Branson (Virgin Group) to name a few. When I met Dale Williams, the charismatic Mayor of Otorohonga, I learned that he too dropped out of school to apprentice as a mechanic before starting a motorcycle dealership at the age of 23. New Zealand investor Dion Mortensen dropped out of school, preferring the pace and relevance of real work.[68] He was hired as an executive early in his twenties and never regretted learning through experience. Like Mortensen and Mayor Williams, young innovators develop their skills by exploring and iterating, doing real work, rather than studying formal curricula. They apply knowledge to solve brand new problems. The innovators featured in Wagner's book each had great mentors who supported them. They were self-motivated, rather than driven by external measures such as grades, money or recognition. I am not suggesting that school and other formal training is not important. Quite the contrary! The challenge is to create the right type of learning environment that fosters creativity, where youth can follow their passions, gain confidence and find support. Wagner challenges popular views that entrepreneurs and innovators are born. He outlines many intentional approaches that nurture young people to be creative, self-confident and productive. He makes the case that successful economies in the future depend on these disruptive innovators. Certainly many of

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[67] Ashoka (n.d.) https://www.ashoka.org
[68] Personal communication (12 July 2013)

these inventions will create new products and services in the private economy. A landmark study on innovation by General Electric in 2011 suggests that social need may see the greatest benefits. In interviews with 1000 senior business executives from 12 countries 77 per cent of those surveyed agreed that "the greatest innovations of the 21st century will be those that help to address human needs more than those that create most profit."[69]

Tertiary education is the optimal stage to engage students to learn about and pursue social enterprise. These transitional years are ripe for inquiry, collaboration and risk. New Zealand will benefit enormously by attracting top talent to social enterprise during tertiary education. On the flip side, if there are not ample opportunities to support these young entrepreneurs, New Zealand risks losing them to other countries. Students are connected internationally, and know that they can travel elsewhere to launch social enterprises if there are not adequate supports in New Zealand.

School-age Enterprise Development

There are excellent models for how to engage and develop young people to become innovators and entrepreneurs. There are four core components:

- Knowledge – a learning environment that fosters creativity and supports students to be self-motivated to pursue their passions
- Experience – opportunities to apply knowledge to novel problems and to produce authentic work
- Mentoring – support by caring adults who coach students using strengths-based and culturally sensitive approaches. Family support and professional guidance are both essential
- System of supports – for these students to be successful, they require a host of supports. These include tools (such as state-of-the-art technology), access to networks that connect them to influencers and leaders, funding and recognition for their achievements.

Following are case studies of effective New Zealand programmes that are supporting and preparing the next generation of entrepreneurs.

Young Enterprise Trust

Young Enterprise Trust is a stellar national programme that encompasses all four success factors listed above. Celebrating 30 years in 2011, they serve students from years one to 13. The premier programme is the Lion Foundation Young Enterprise Scheme (YES), a business course that gives students a chance to set up a company. It is aligned with business studies achievement standards for levels two and three and also has its own standalone credit pathway, the YE Certificate. Since its start in 1981, 50,000 students have taken part in YES; in 2012, 2962 students participated from 151 schools to launch 700 businesses![70]

According to CEO Terry Subkin, "more and more students are forming social enterprises," and Young Enterprise Trust is excited about this trend.[71] Several

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[69] Wagner (2012)
[70] The Lion Foundation (2013), page 4
[71] Personal communication 19 March, 2013

examples are featured in the newly published book, *The Young New Zealander's Guide to Entrepreneurship.*[72] For instance, iFigure produced a 90-minute DVD workout targeted for Pacific Island families to stay in shape. The team was awarded $5,000 by the Counties Manukau District Health Board, validation that they struck a market gap. Pink, a 2012 company, partnered with Whittaker's Chocolate, to bring to market a white chocolate raspberry product. Almost 100% more products were sold during the first ten days than any previous Whittaker's product launch; they raised $70,000. They called this a social enterprise, although I would describe it as an example of selling a commercial product to fundraise for a social cause. Romulus, a YES social business, developed strategic partnerships with young people, primarily Māori, in two custodial institutions. The business produced individually crafted breadboards and bilingual cookbook and profits were invested in restorative justice programmes in the prison.

Young Enterprise Trust has an impressive board, a diverse network of mentors and large numbers of successful alumnae business leaders. If it aims to grow a pipeline of social entrepreneurs, a next step for the YES scheme will be to create a social enterprise stream and separate curricula. Young Enterprise Trust has the potential to galvanize young social entrepreneurs. Students will benefit from understanding how social enterprise is distinct from commercial enterprise and having educational and practical supports to launch social businesses.

UPT Digital / IT Hothouse

UPT Digital, based at Unlimited Paenga Tawhiti (UPT), a social-character school started in 2003,[73] is exactly the type of engaging learning environment that Wagner describes. When I visited the school in April 2013, the energy was palpable because a mentor was visiting from the US to work with a group on mapping software developed by ESRI (Environmental Systems Research Institute).[74] This student team is building a web and mobile app to deliver help on demand for social enterprises.

The school's vision and tenets mirror those that breed innovators.[75]

- Students are central in directing their own learning and interests and curriculum/qualification pathway; students' individuality is valued
- Learning experiences extend beyond boundaries of place, time, age, methods of learning and areas of study
- The entire community is the learning environment; families are vital and active partners; everyone is a learner and everyone is a teacher
- We encourage, nurture and celebrate creativity, innovation, entrepreneurship and challenge and treat each other with mutual respect and kindness.

UPT Digital expanded the programme to other schools and communities so others could replicate the model and tools and adapt them to their own needs. It did not take long for demand to generate new pods in New Zealand and internationally.

UPT Digital is preparing students for careers in IT with a focus on game, application and web development for multiple platforms because of the multi-disciplinary nature

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[72] Hunter (2013)
[73] Unlimited Paenga Tawhiti (n.d.) http://unlimited.school.nz
[74] ESRI (n.d.) http://www.esri.com
[75] Ibid

of these projects and the emphasis on teamwork. Students can pursue individual projects, engage freelancers and collaborate in teams. There is extensive mentoring provided by Facilitator Renea Mackie and a network of local and international advisors. Microsoft New Zealand Director stated, "The UPT Digital team is breaking all the rules-and guess what? It works!"[76]

High Tech Youth

I arrived at this afterschool programme in Otara, South Auckland, before the students arrived. I was greeted by four staff with a beautiful welcome ceremony. Every aspect of High Tech Youth (HTY) is grounded in the heritage and values of students' Māori and Pasifika communities. This nurturing learning community is based on whanaungatanga (relationships); kotahitanga (shared direction); tino rangatiratanga (self-determination); and aroha (love).

The founders modelled the initial programme on the successful Intel Computer Clubhouse Network based in Boston, Massachusetts. Students develop videos, make music, and do robotics, animation and 3D design. Like IT Hothouse, they develop products for commercial and community clients. The network now has studios in Hamilton, Wellington, Whakatane, and Wanganui. Each community adapts the model to meet its own aspirations. High Tech Academy (HTA) was launched in 2011 to provide credentialing for creative, high-tech work, targeting decile 1-3 schools and underserved communities.

The students arrived and the noise level increased dramatically. They darted off to computers and settled in. When I asked one the students what she liked about the studio she said, "It's totally cool here. I get to learn to make computer games and all sorts of other things. My friends come here and everyone's really helpful. This is definitely my thing."[77]

Following are two US examples of youth entrepreneurship education and training.

The Met School Center for Innovation and Entrepreneurship – US Case Study

The Met School based in Providence, Rhode Island was started in 1996 and its framework, similar to UPT, is student-driven experiential learning surrounded by advising and support. They expanded from one school to 12 with a $4 million Gates Foundation grant and expanded again in 2002 to 16 cities in 12 states.

In 2005, school founder Dennis Littky and serial entrepreneur Bill Daugherty envisioned building a free standing entrepreneurship centre at the school. The 3,600 square foot building opened in January 2012, the first stand-alone entrepreneurship centre for high school students in the US. Since its opening, students are earning awards at regional business competitions. Four school-owned, student run businesses have been started along with 16 student-owned and run companies. This school takes youth entrepreneurship education to a new level.

The Network for Teaching Entrepreneurship (NFTE) – US Intermediary

The Network for Teaching Entrepreneurship (NFTE) celebrated 25 years inspiring 500,000 young people from low-income communities to stay in school, to recognise

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[76] *IT Hothouse*
[77] Personal conversation (17 April 2013)

business opportunities and to plan for successful futures.[78] Founded in New York City by an entrepreneur turned math teacher, NFTE prevents dropouts and improves academic performance among students who are at risk of failing or quitting school. Founder Steve Mariotti says, "when young people from low-income communities are given the opportunity to learn about entrepreneurship, their innate 'street smarts' easily develop into 'academic smarts' and 'business smarts'. Through entrepreneurship, young people discover the relevance of what they are learning to the real world."[79] NFTE describes its approach:

> Entrepreneurship education is the fundamental tool for creating a cycle of learning and innovation that will bring sustainable job creation and re-creation. Young people face historic increases in joblessness, an unemployment rate that is three times higher than that of adults, and a rapidly shifting economy. Technology and capital are driving this economic change. The global economic crisis itself is driving change. Success is defined as the ability to build, scale and adapt a business quickly in the digital world. Entrepreneurship education is a tool that equips young people to not only start businesses and create jobs, but also to be opportunity-focused, flexible employees ready to fill existing jobs.[80]

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[78] Network for Teaching Entrepreneurship (2013) http://www.nfte.com
[79] Ibid
[80] Ibid

3   SOCIAL ENTERPRISE IN TERTIARY EDUCATION

The Need for Academic Papers, Research and Training Programmes

The years during tertiary education are a unique time in a young person's life. Students are exploring their identity, values, capabilities and career paths. Campus life exposes them to new ideas and people. Social media enable students to interact academically and socially across divides in ways that were rare until recently.

University students in the US, UK and elsewhere are launching dynamic start-ups. Fellowships abound with incubation supports and mentoring. The academic environment provides easy access to develop cross-disciplinary teams. Campus culture is becoming a start-up lab. The social enterprise space is changing due to the influx and ingenuity of start-ups founded by students, incubated on campus and catapulted into the ecosystem.

For some students, their first spark of social awareness occurs at university. Bill McKibben is a lecturer who triggers such an awakening. McKibben, an economist and US professor, launched 350.org with some students to educate and engage people about the urgency of climate change. Young New Zealanders took up the challenge and organised 350 Aotearoa after his 2010 speaking tour. Many New Zealand activists trace revised career choices to McKibben's message of urgency. Role models excite youth and offer a picture of career options that they never previously imagined.

Gregory Dees, called the father of US social enterprise education, believes that social enterprise surfaced in higher education because of a demand pull from students that started 15 years ago. Dees taught the first social enterprise class at Harvard Business School (HBS) in 1995. Today, the social enterprise club is one of HBS's largest on campus with over 300 members.

Around the globe, there are over 3000 students in approximately 103 social enterprise MBA programmes.[81] According to Net Impact's Talent Report: What Workers Want in 2012, the Millennial generation wants, and expects, to do good and do well in their paid work.[82] Applications to the social entrepreneur seed funding organisation, Echoing Green, have more than tripled to 3,500 annually. In the UK, The Skoll Centre for Social Entrepreneurship at Oxford's Saïd Business School, founded in 2003 attracts the best and brightest to the social sector. The University of Exeter Business School in the UK recently launched the One Planet MBA in partnership with the World Wildlife Fund. Canada's Sandermoen School of Business at the University of Fredericton launched the country's first MBA in Social Enterprise Leadership. Canada will host 1200 people from over 30 countries at the Sixth Annual Social Enterprise World Forum in October, 2013. Six hundred young social entrepreneurs joined some of the world's wealthiest philanthropists and business leaders from 70 countries at the United Nations in July 2013 for the Nexus Global Youth Summit.

My own experience at Brown University corroborates Dees' thesis. Ten years ago social enterprise barely existed at Brown. In 2007 The Swearer Center for Public Service introduced a part-time role to examine opportunities for social enterprise at Brown. The director, Alan Harlam, redirected $20,000 to start a social enterprise business competition. Next, he shaped a foundation course and a second paper was

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[81] Net impact (2012) http://netimpact.org
[82] Ibid

offered this year. As student interest accelerated, Harlam started a flagship fellowship programme to train and fund approximately 12 students annually to lead social enterprises. This accelerator programme is highly selective and prestigious. It has three core components:

- a strong community of entrepreneurs to learn from each other
- relevant skill building to start and develop successful business models and ventures
- intensive coaching and mentoring by staff and alumni volunteers.

Students receive $4000 to work on their enterprise during the summer. Harlam raised capital to help students transition to paid employment once they graduate so they can earn a salary as they grow their enterprises. It is challenging to shift from full time student to independent professional without earning a wage, especially if students face debt from student loans. Alumni play a pivotal role to mentor students and technology enables remote relationships. At Brown, more than 100 alumni are actively engaged as mentors. Many become donors, inspired by the students and their impressive start-ups. I first got involved as an alumna volunteer mentor. Approximately 35-50 viable enterprises have been incubated by students at Brown in five years.

New Zealanders are sceptical when I describe enterprises founded by university students. In fact, students are launching and developing highly sophisticated ventures. They boldly pursue coaching from highly successful business mentors. They are exceptionally networked, reaching out to resource people from all over the world. They are savvy fundraisers, impressing investors with their intelligence, risk orientation and tireless energy. The following are just a few examples of successful social ventures that were incubated at Brown University in the past few years. Most of these start-ups grew so fast that the founders had to put academic studies on hold. Entrepreneurs earned competitive awards for themselves and their businesses.

- NBA Math Hoops[83] – Khalil Fuller was frustrated as a summer math tutor, finding it hard to keep the students' attention. He took them to play basketball for a break, sneaking in math problems, and found the students picked up the math concepts rapidly while they were having fun. The experience sparked the idea for a better approach to teach math. NBA Math Hoops was born – an imaginative game that is played in teams. Khalil earned a prestigious Brown social venture fellowship to develop the business plan. He leveraged mentor and investor contacts to develop partnerships with the National Basketball Association and Hasbro toy company. He was the youngest recipient of the international Echoing Green Fellowship at 19 and earned a $50,000 national award. The start-up team developed proof of concept with 10,000 users. School is on hold so Khalil can manage the official launch.
- Capital Good Fund[84] – Muhammad Yunis was a role model for co-founder Andy Posner when he and classmates designed the concept for a micro-finance business for a social enterprise class in 2008. Today this social business provides high-quality, innovative and transformational financial services to underserved families. They have a diverse portfolio of services, strong track

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[83] NBA Math Hoops (2013) http://nbamathhoops.org
[84] Capital Good Fund (n.d.) http://www.capitalgoodfund.org

record, and plentiful media. This homework assignment transformed into an impactful social venture.

- Gardens for Health International[85] – GHI works in Rwanda to provide lasting agricultural solutions to chronic malnutrition. Co-founders Emma Clippinger and Emily Morrell were student interns in Rwanda in 2006 and became interested in identifying programmes that used agriculture as a means to improve nutrition and health rather than solely as a means to increase income. Rwanda's child malnutrition rate is 44%. Finding a market gap, they launched GHI. They won the Echoing Green Fellowship in 2009 and in 2012 GHI's co-founder and in-country director won an Ashoka Fellowship.

In addition to running ventures Brown students organise annual conferences that attract more than 2,000 attendees. They have several community partnerships and these expand their reach. In April, the university announced TRI-Lab, a $1 million investment that brings together students, faculty and community practitioners to engage with complex social issues and collaboratively develop, refine and test solutions.

I frequently hear from students that their parents are wary of their desire to be a social entrepreneur, because they don't understand the field and they do not know whether it is a legitimate career choice. It is important that young people have role models to validate their professional aspirations. These days, role models are often just a few years older than students. Recent graduates flock back to campuses to share their personal journeys and mentor students. These young graduates are garnering media attention, earning awards and securing big dollar investments to scale initiatives.

Four cornerstones foster student social entrepreneurs during tertiary education:

- Identity – the field must be visible and credible as an academic discipline and an exciting and reputable career path
- Academic papers – there must be specific papers on the fundamentals of social enterprise as well as a course of study that weaves together relevant courses from business, design, environmental studies, anthropology, etc.
- Enterprise development – students who create start-ups require mentors, training, shared space and funding. These supports already exist on many campuses for enterprise development and can be adapted for social enterprises
- Research – faculty need funding and support to pursue research across disciplines. Researchers should connect with community practitioners to increase the relevance and application of the research.

New Zealand students in tertiary education have few opportunities for formal learning in social enterprise. Social enterprise has almost no visibility on campus. I did not identify undergraduate academic papers specifically devoted to social enterprise in New Zealand. There are a handful of papers at the masters' level. I heard from faculty that there is growing student interest, but there are many institutional barriers that make it difficult to introduce new papers. Almost every young social entrepreneur whom I meet in New Zealand laments the absence of academic papers.

There are faculty with research interests in social enterprise in many additional institutions such as Waikato University, Otago University, Massey University,

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[85] Gardens for Health International (n.d.) http://gardensforhealth.org

Auckland University of Technology (AUT), and University of Auckland, though funding for social enterprise research is miniscule. Massey University opened the New Zealand Social Innovation and Entrepreneurship Research Centre in 2010; according to the director it has been challenging to secure research funding. The Centre plays an important role to convene researchers and will host its second national conference in November 2013. There is a huge increase in social enterprise research internationally and New Zealand can certainly benefit from this literature. It is also important for New Zealand to investigate issues that are context specific. For instance social enterprise in Māoridom is a particularly rich topic for inquiry.

The growth of student-run clubs reflects increased interest and provides peer support. Clubs that promote and teach business development on campuses are well developed and social enterprise programmes are evolving as off-shoots of those more established clubs. For instance, Spark, based at the University of Auckland, is such an example. Spark started ten years ago. They have major business sponsors such as ANZ, Fonterra and New Zealand Trade and Enterprise to underwrite a competition with a $100,000 prize along with mentoring and feedback from industry experts, business workshops, seed capital and business incubation. Spark has prizes worth $10,000 specifically for social enterprises along with training, networking and mentoring. This year there was a phenomenal surge in entries for the Ideas Challenge.

The P3 Foundation (Peace, Prosperity, and Progress) is a great example of a student initiative with reach and impact.[86] P3 was conceived in the same way many of the world's greatest ideas are formed – over coffee between friends in December 2009. Then medical student Divya Dhar (P3 Founder and Young New Zealander of Year in 2010) and some friends believed Kiwi youth could play a key role to eradicate poverty in the region in their lifetime. When I met Bex Silver, Development Officer, what impressed me most was how effectively this volunteer student group handles succession planning. Two hundred student volunteers participate from campuses across the country. They raised $20,000 in year one, doubled income in year two and aim for $100,000 his year. P3 mentors secondary school students. They sponsor a social enterprise competition and partner with Save the Children to provide $1500 to implement ideas and get on-going support.[87] The SEED programme is in development to teach high school youth about global poverty and to develop leadership skills, innovation opportunities and critical thinking skills.

UC Innovators is based at the University of Canterbury and is another university club that engages students across diverse disciplines to consider entrepreneurial ideas. I met with faculty liaison Dr Rachel Wright, who specialises in science and innovation. She shared that an important aspect of campus clubs is the cross-pollination of creative ideas that happens when students mix from different areas of study.

The University of Otago Centre for Entrepreneurship offers a popular postgraduate-level paper in social enterprise. The profile of social enterprise in Dunedin may be higher than other communities thanks to Malcolm Cameron, whom I referenced previously. Mr Cameron has a remarkable passion to support youth. Malcam Charitable Trust (MCT) has sponsored more than 80 programmes and young people have volunteered 450,000 hours for a value of $10 million. MCT incubated several

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[86] P3 Foundation (n.d.), http://p3foundation.org/about-us/our-history
[87] Ibid

successful social enterprises. He is planning a major national campaign on the road to reach youth in schools using digital media to educate and inspire.

Each person's journey from student to social entrepreneur is unique. But in each case, campus life fuels intellectual curiosity, social commitment and entrepreneurial spirit. The following two stories illustrate the potential when these factors collide.

Profile of Social Entrepreneur Guy Ryan[88]

One of the young people Mr Cameron mentored was Guy Ryan. Guy was raised in a rural West Coast town in the South Island and he was more interested in surfing than study. He attended Otago University attracted by Dunedin's surf. Guy studied design and marketing. He was one of those students who was inspired by Bill McKibben speaking about climate change in 2009, and decided to act. Guy connected with a network of social activists including Louis Brown and Bill Mathewson, who started The Regeneration Project, a campaign to enlist a new generation of change-makers. They organised massive festivals such as A Day at the Beach that attracted 2,000 people to clear rubbish and plant 5,000 trees and a Spring Food Festival attended by 10,000 people. All of this hard work was done 'on the smell of an oily rag'.[89]

For a master's paper, Guy co-produced a film, *Carving the Future*, featuring young people making a difference. The documentary won several awards. The producers self-funded and distributed 1,000 copies of the film across New Zealand. The ardent feedback about the film validated Guy's decision to pursue his vision.

Guy earned a Vodafone Foundation World of Difference award in 2011. It is one of few fellowships that provide a stipend so leaders can devote a year to social impact work. Ryan used the grant to launch Inspiring Stories Trust in 2011.[90] In just a few years, Inspiring Stories is changing young people's lives and influencing the entire ecosystem. Starting with a budget of $80,000, thanks to the Vodafone grant, last year the budget doubled along with $50,000 in-kind support. This year the budget is half a million, though cash flow is a challenge. Guy is optimistic about the future. They are preparing for the third annual Festival for the Future, a major event in Wellington attended by 350 participants last year. "Young people are searching for purpose and meaning in their lives," Guy explained. "We need to showcase the amazing stories about what they are doing to inspire others to join in. New Zealand depends on us to create our future."

Inspiring Stories is a premier youth organisation, catapulting youth to be change-makers. Guy's personal story is testament to the importance of university experiences. Guy was fortunate that he had peers and mentors to encourage him along the way. The Vodafone award was possibly the tipping point that propelled Guy's commitment to social enterprise. Finally, Guy is a great role model for transforming ideas into a viable organisation, supported by strategic partnerships. I am confident that Inspiring Stories will continue on its success trajectory.

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[88] Based on a personal interview, 5 August 2013
[89] Personal conversation, 5 August 2013
[90] Inspiring Stories (n.d.), http://www.inspiringstories.org.nz

Profile of Social Entrepreneur Anna Guenther[91]

Anna Guenther is another example of how tertiary education can become a springboard to educate and launch a dynamic social entrepreneur. Guenther studied English literature and German as an undergraduate. Her participation in the YES scheme was a hint that a business career was in her future. Her first job was at New Zealand Trade and Enterprise (NZTE) and that experience persuaded her to enrol in the master's degree in entrepreneurship at Otago University.

Guenther studied Kickstarter, an internet crowdfunding platform that was founded in 2009. Since its launch, 4.4 million people have pledged over $686 million to fund 44,000 projects. Crowdfunding leverages technology to invite people to contribute small amounts to support a project that piques their interest. Kickstarter is best known for amalgamating small transactions; however, by 2012 two Kickstarter projects raised US$1 million each and now there are more than 36 million dollar projects.

Guenther realised that New Zealand did not have a crowdfunding platform. She partnered with a technical developer and in February 2012 they founded PledgeMe. PledgeMe has created a strong brand and loyal following. Over $1.3 million has been pledged and they project a twofold increase in a year. They earn revenues by charging 5 per cent for successfully funded projects and 3 per cent for credit card handling.

The founders assessed whether to structure PledgeMe as a not-for-profit or company. They decided on the latter, considering it a more agile structure. Guenther considers the business a For-Benefit enterprise, a structure that balances healthy balance sheets and social benefit. B Corp is a certification system for this company form, managed by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency.[92] Eagle Consumables is New Zealand's first company to earn the B Corp designation.[93]

As a recent graduate, it has not been easy for Guenther and her partner to lead their business. They need reliable employment to pay their bills. This is a dilemma for most young social entrepreneurs. It is common for start-up entrepreneurs to be employed elsewhere while they incubate their new venture. This practical choice slows down venture development and even derails it.

Guenther has found it difficult to persuade investors that this social business can produce a return on investment. Like many start-up social enterprises, the model confuses private investors and philanthropies alike. In spite of several unsuccessful rounds on the funding circuit, Guenther is not giving up. She is confident that they are developing a viable social business and tapping a market niche. Like most entrepreneurs, she is not risk averse. In May she quit her paid employment to work on PledgeMe full time. My hunch is that she will not be sorry.

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[91] Based on personal interview, 3 May 2013, and unpublished case study, Centre for Entrepreneurship, University of Otago

[92] *What are B Corps*, There are more than 760 Certified B Corps from 27 countries and 60 industries.

[93] Eagle Consumables is New Zealand's first B Corp, http://www.celsias.co.nz/article/eagle-consumables-becomes-nzs-first-bcorp-certifie/ (2013)

4 EXPANDING SOCIAL ENTERPRISE START-UPS

Replicate the Business Development Model

The system for incubating ideas and early stage start-ups is well known in the business development sector and this same model applies to social enterprises. There are eight nationally funded business incubators through New Zealand Trade and Enterprise (NZTE). Since 2001, 300 companies received tailored support for these services:[94]

- technology and market validation – to test ideas and build a strong value proposition for large markets
- business planning and development – to build and implement a strategy for business growth
- capability development – to build the foundations that will support high growth
- investment (preparation and funding) – to prepare for investment and to provide access to investment and angel investor networks
- advice (governance and advisory boards) – to grow the business and expand internationally into new markets.

There are three incubators in Auckland (AUT Business Innovation Centre, The Icehouse, e-Centre Massey), Soda Inc. in Hamilton, the BCC in Palmerston North, Creative HQ in Wellington, Powerhouse in Christchurch and Upstart in Dunedin. They do excellent work to identify promising ideas and provide a continuum of supports to test their validity and assess opportunities for scale.

The government invests in these start-ups to encourage the development of state-of-the-art products and services that will grow the New Zealand economy and have potential to produce overseas market value.

Callaghan Innovation was set up by the government one year ago to stimulate innovation and commercialisation among the country's 500 science, engineering and technology companies, laboratories, campuses, workshops, studios and factories and 50 major institutions in the innovation sector.[95] According to the CEO of Callaghan Innovation, Dr Mary Quin, innovation is the key to sustainable growth.[96] We live and work in a global, digital marketplace where size and distance are no longer hurdles. "You can disrupt an industry with only two people from a small island in the Pacific."[97] She is referring to Xero, but I would make the same claim about Loomio, a social enterprise that is profiled in this report.

Social enterprise needs these same types of supports in order to grow. New Zealand has the need and potential to be an international player in social innovation, but it will not make progress without support organisations and investment. Steven Carden wrote in *New Zealand Unleashed* that societies that are poised to grow in this highly complex world are those that generate lots of new ideas, absorb the ideas of others

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[94] New Zealand Trade and Enterprise (n.d.), http://www.nzte.govt.nz/en/how-nzte-can-help/programmes-and-services/incubator-support-programme
[95] Ibid
[96] Callaghan Innovation (n.d.), http://www.callaghaninnovation.govt.nz
[97] Ibid

and demonstrate the willingness to change.[98] One change that New Zealand needs is to begin to invest in social enterprise.

Social Enterprise Incubation System

The following ideas are based to some degree on my experiences; however, most importantly, they reflect insights contributed by an ad hoc group who convened in June to craft a framework for growing social enterprise in New Zealand.[99]

Social enterprises, like other types of enterprise, move along basic developmental stages on a continuum.

- Engagement and ideation – impromptu conversations and other stimuli are the starting point for a new approach to solve a problem. Sometimes these are catalysed at formal events like Start-up Weekend. More often, the germ of an idea is sparked informally.

- Start-up incubation – this blueprint stage is when ideas are turned into a business plan. People are recruited. Prototypes are created to test proof of concept. Legal structures are considered. Funding is usually a mix of donations from friends and family, crowdsourcing or small grants. Occasionally a start-up will pique the interest of a private donor who contributes seed capital. This stage can continue for a year or several, though there is market pressure to speed up this early phase.

- Development – iteration is a key to sustainability. Quality products and services that produce market value are the foundation of every start-up. The business plan must adapt based on actual data. Strategic networks are critical at this stage. Leaders connect remotely and personally with critical stakeholders. Finances become a major factor, so founders devote more and more attention to securing investments. Key players aim to shift from unpaid to paid roles, requiring infusions of capital.

- Growth and Scale – growth is marked by gradual expansion based on capacities. According to the start-up genome project, premature scale is the top cause of failure.[100] Social enterprises pursue scale to grow more rapidly and/or to expand to new markets to substantially impact social or environmental systems. Scale often requires major capital investment and partnerships to produce broad-based results.

In 2012 Monitor Group and Acumen Fund published *From Blueprint to Scale: The Case of Philanthropy in Impact Investing*. The authors address the pioneer gap, the tricky stage when innovators are crafting new models that are not developed enough to be compelling for most investors. Without financial support during this fragile period, many visionaries abandon their pursuits.

Firms that are pioneering new business models shoulder a heavy burden…By definition, these firms are blazing new trails rather than following the well-

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[98] Carden and Murray (2007), page 21
[99] Attendees: Guy Ryan, Vivien Maidaborn, Joshua Vial, Alex Hannant, Liz Gibbs, Terry Shubkin, Billy Matheson, Shona McElroy, Murray Wu, Belinda Gorman, Roger Ellis, David Clearwater, Anna Guenther, Diana Suggate, Hannah Smith, Nigel Talkillis, Yospeh Ayele, Pat Shepherd, Sylvia Zuur, Hannah Varnell
[100] The Startup Ecosystem Report (2012)

worn paths established by others. They must develop and refine their models the hard way, by trying them out in an unforgiving, low-margin marketplace. Inevitably they suffer failures and setbacks on the road to viability. Often they also have to invest heavily in educating customers about the possibilities of new 'push' solutions, and in developing unskilled suppliers and fragmented distribution channels to serve their requirements. Although excited by their novelty, investors are often rattled by these firms' risk profiles and are unimpressed by their financial returns, all the while suspecting that they might actually be savvy non-profits masquerading as commercially viable models. These are tough challenges that call for strong support. However, knowing how best to support a pioneer firm requires a firm understanding of its needs, which change as the firm evolves over the course of its journey from start-up to eventual scale.[101]

Scaling a Business

1. BLUEPRINT	2. VALIDATE	3. PREPARE	4. SCALE
● Understand customer needs ● Develop initial customer proposition ● Develop business plan ● Develop core technologies and product or service prototypes	● Conduct market trials ● Test business model assumptions ● Refine business model, technologies, and product or service	● Stimulate customer awareness and demand ● Develop supply chains upstream and downstream ● Build organizational capability to scale up systems, talent, and plant	● Move into new geographies and market segments ● Invest in assets and talent ● Enhance systems and processes ● Exploit scale efficiencies ● Respond to competitors

[102]

The Hikurangi Foundation, is an incubator system for environmentally oriented social enterprises in New Zealand.[103] At any one time, they support about a dozen early stage ventures to progress from germination to development. Hikurangi provides technical assistance and guidance directly and they broker coaching relationships through a national network of professionals. Twenty-five experienced technical experts participate in this Compass Network.

Hikurangi Executive Director Alex Hannant notes that each development stage presents unique challenges for a start-up social business. Founders require persistence to take visionary ideas and fledgling start-ups along the path for the long haul. Tenacity is one of the qualities often attributed to entrepreneurs. As important as original ideas are, the purpose of creating an enterprise is to create social and market value. Building a sustainable, market-driven social business is a roller coaster, just like a traditional business start-up. Currently, social businesses operate at the margin. They are underserved markets, lacking access to products and services that could provide pathways out of exclusion.[104]

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[101] Koh, Karamchandani and Katz (2012), page 10
[102] Koh, Karamchandani, Katz and Dichter (2013)
[103] Hikurangi (n.d.) http://hikurangi.org.nz
[104] Burkett (2013), page 10

The following cases will illuminate some of the challenges and opportunities start-up social enterprises face in New Zealand. I have selected three different types of enterprises, each with a clear social purpose. Each business' journey is distinct, yet a common thread is the determination of the founders to realise their vision in spite of limited supports, especially funding.

Loomio[105]

Loomio is a cooperative venture producing software to improve decision-making. Values are at the heart of this start-up and, as a result, the founders are determined to secure capital investment without giving up equity. Ben Knight, one of the founders and the public face of Loomio, is soft spoken, yet his gentle style belies his determination to grow a billion dollar social business.

The idea for Loomio was sparked at Occupy Wellington, part of the 3000 city movement that took place around the world in 2011.[106] Ben, Jon Lemmon and Richard Bartlett, who became active in the movement, were astonished by the decision-making protocol that empowered everyone to participate actively. They also recognised practical constraints of time and place that are barriers to participation. Communities benefit when constituents contribute to decisions, but residents face many hurdles such as transport and job responsibilities that prevent them from participating. When groups meet in person, typical dysfunctional behaviour reduces the value of diverse perspectives. Loud voices often prevail. People in positions of authority dominate; imbalances of power derail participation.

Ben, Jon and Richard schemed up the idea to create an on-line tool that could make democratic decision-making more accessible and produce better results. The tool combines discussion and decision-making so on-line dialogue leads to clearly agreed outcomes. It is easy to follow the conversation and to weigh in on a preference once a decision is proposed. The tool is user-friendly, making it easier for groups to make good decisions quickly.

The team approached Enspiral to work with them and before long the activists were devoted to creating a social business. Ben commented to me that he never knew business could be an engine to drive social purpose. He came to realise that revenue could be a means to address social need rather than an end in itself.

They expanded the team. Vivien Maidaborn, a seasoned social entrepreneur and non-profit leader, joined along with Alanna Krause, who had a business background. Other members of the 10 person core team are coders. This multi-faceted skill set serves the business well. Being based at Enspiral is a huge asset too. They tap the broad Enspiral network, and being physically based at the hub means they can easily and quickly test ideas with other social entrepreneurs, share interns and administrative supports, and sometimes simply unwind together.

They built a rudimentary prototype in four months. They tested the tool at Enspiral and straight away people found it useful and offered feedback. As they built the technical architecture for the product, they also paid attention to create a business culture and system that reflected their values. They intentionally balance individual

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[105] This case is based on interviews with Ben Knight and Vivien Maidaborn, conversations with Loomio team, Loomio prospectus, and practical experience using Loomio
[106] Occupy Movement (2013)

autonomy and collective coordination. They are deeply collaborative; both process and product benefit from the diverse perspectives and expertise.

Risk is a critical factor in any start-up. The Loomio team agreed that they would allocate equity that reflected risk and time. Some team members kept day jobs; others were paid subsistence salaries so they could fully devote their time to Loomio.

Loomio shifted quickly from discovery to validation. Since launching the app in May 2012, word of mouth spread Loomio around the globe and they have been swamped with requests. Loomio is used in more than 20 countries by businesses, NGOs and local governments. The site is translated into Spanish and five other languages are in development.

Site visits to Loomio originating in Europe in February 2013

Hungary: 4799
Germany: 291
France: 199
UK: 185
Spain: 134
Austria: 122
Netherlands: 102
Finland: 88
Italy: 57
Poland: 50
Slovenia: 46
Ireland: 45
Sweden: 28
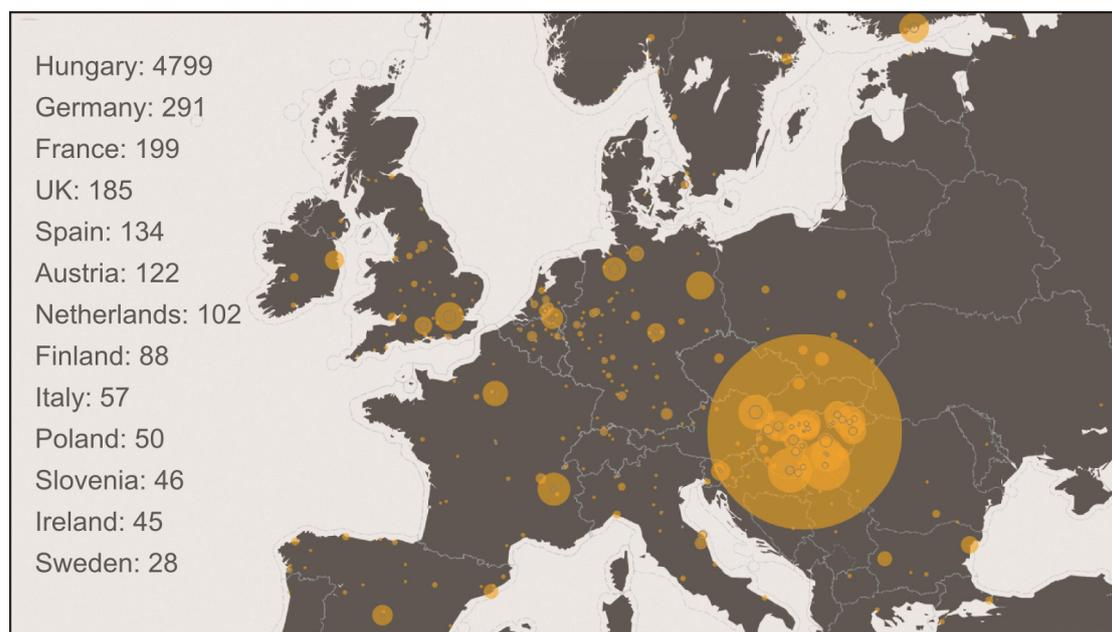
Loomio migrated to the efficiency phase in 2013. Premature scale is the top cause of failure.[107] To avoid this pitfall, Loomio is optimising software performance, refining its business model, automating customer procedures and reducing customer acquisition costs. It is actively pursuing capital through social impact loans and will launch publicly in August 2013. Loomio fills a market niche. It engages stakeholders to contribute to better, faster more inclusive decisions for institutions, communities and multi-institutional partners.

Te Hana Te Ao Marama (the new dawning of Te Hana)

When I visited Te Hana Te Ao Marama Māori Cultural Centre in May 2013, a group of US travel agents was touring the property. I asked the group their impressions, and they said they were thrilled to be able to offer such a meaningful cultural experience to their clients not far from Auckland.[108] What really delighted them was how flexibly the staff accommodates their needs.

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[107] Koh, Karamchandani, and Katz (2012)

[108] Oruawharo Te Hana is approximately one hour north of Auckland. 90% residents are of Māori ethnicity.

One could argue that Te Hana Te Ao Marama is no longer a start-up. The Te Hana Community Development Charitable Trust was set up in 2002 but the demise of the local community started in the 1980s when the dairy closed along with the disappearance of railroad and forestry jobs. Unemployment soared. Eighty-five per cent of the youth were school leavers after age 15, and drug and alcohol addiction was a major problem. In 2004 the Council made an ultimatum that they were going to abandon the town due to hazardous living conditions, lack of potable water, crime and several arson fires.

Linda Clapham, Thomas de Thierry and other members of the local tangata whenua had a different idea. Together they engaged stakeholders to create a shared plan. They envisioned a beautiful, culturally and socially vibrant place of opportunity. They coordinated efforts to raise funds, upgrade infrastructure, and lease land. They planted 15,000 trees to protect the water quality of the river and "did what needed to be done," according to Linda. Trust members volunteered thousands of hours to realise their dream. They engaged with whānau (local families) and youth to join in activities and crime dropped by 90 per cent.

Today, Te Hana Te Ao Marama is a gorgeous property. The Te Hana marae is the second of 1000 marae in New Zealand to be Qualmarked.[109] There are authentic Māori cultural experiences, marae visits and overnight accommodations, a cafe, indigenous art and craft studio, cultural concerts and tours of a 17th Century replica of pre-European Māori life within a papakaianga and pa Māori (fortified village). Local residents are employed to operate Te Hana. Revenues are reinvested into education, up-skilling and social programmes for youth. The centre is a community-driven Māori local economic development initiative that leverages cultural knowledge, language, history and genealogy and creates sustainable opportunities for whānau.[110] In the last 12 months over 7500 school and tertiary students visited the centre. All of this was achieved through volunteers, koha[111] of professional services, charitable donations, active fundraising, grants and partnerships with government, tertiary providers and others.

Te Hana Te Ao Marama is a place-based model that engages the community to realise its own solutions to entrenched problems based on its own intrinsic characteristics and strengths. Survival itself was at stake. Any start-up that involves property development takes substantial capital and risk so the pace was slow and steady. The operation is debt-free, valued at approximately $4 million. They have a 99 year lease on the land from Council, but are unable to borrow funds. They anticipate earning a profit to self-fund social development projects in the next few years.

Linda showed me the work shop where youth were carving adornments for the marae. The staff needed to research the iwi's historical carving designs, since they had been dormant through the years. Te Hana is creating employment. It is offering educational and recreational programmes for youth. And it is sharing authentic cultural experiences with school-children and tourists. Perhaps most importantly, Te Hana has sparked the pride and empowerment of an iwi hapu who are passing on a healthier and more beautiful community to their children and grandchildren.

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[109] The official quality mark of Qualmark, New Zealand tourism's official quality assurance organisation
[110] *Te Hana Te Ao Marama*
[111] Koha means gift in return, a common feature of Māori tradition

WikiHouse NZ[112, 113]

WikiHouse is an open-source manufactured construction set enabling anyone to design durable and versatile high-performance buildings which can be cheaply 'printed' and assembled without formal construction skills or power tools. This unique system is affordable, eco-friendly and designed to empower citizens, strengthen communities and dramatically improve the built environment. WikiHouse originates in the UK and is being tested in Haiti, Brazil, Germany, Korea and elsewhere. Danny Squires and Martin Luff are co-founders of WikiHouse NZ Lab and Space Craft Systems Limited which is leading the global technical innovation in the development of the system.

Danny and Martin joined forces after connecting at the TEDx (Technology, Entertainment, Design) event in Christchurch in the wake of the earthquakes. They both perceived that rebuilding plans were inadequate and unimaginative, missing opportunities to apply 21st century solutions. They were especially concerned about temporary structures that they viewed as a step backward, designs that had been failing for years. Before the quakes, Danny managed a digital manufacturing facility that did industrial laser cutting. He felt responsible to use his skills and training to contribute to the arduous recovery and rebuild process. Martin was self-employed working internationally on the creative use of digital information, communication and design technologies. He played a lead role at an innovative social enterprise, Artimedia, a flagship project of UK Department of Trade and Industry.

WikiHouse seeks to make quality design accessible to everyone. They aim to address skill shortages in traditional building trades and achieve significant waste reductions and efficiencies in the construction industry while reducing construction times and costs. Danny and Martin receive international support such as access to technical guidance, collaboration with leaders on the cutting edge of these new designs, and they have garnered international media. They use world-class research core design materials under creative commons licensing terms.

In New Zealand support is mixed. On the one hand, they have committed volunteers, hot desk space in Christchurch and a network of people willing to offer pro bono feedback, support, material and endorsements. They benefitted enormously from the use of the Massey University Fab Lab to develop the prototype. On the negative side, there is not an enabling legislative framework for social enterprises. They had to create a duplicate structure to qualify for varied funding streams. They formed a commercial limited company, Space Craft Systems, to pursue private investment and they formed a limited charitable company, WikiHouse NZ, to attract philanthropic support. This administrative work-around bogs down many social enterprise start-ups.

Traditional research and development funding streams are unsuitable for open-source, collaborative projects. Similarly state funding for start-ups narrowly targets traditional commercial business models. There is simply no mechanism for social venture start-ups to access capital.

I had the opportunity to see the prototype in Christchurch; it is a masterful design. Once the first structure is complete, along with software designs for customization, WikiHouse NZ will be ready to pursue major funding to begin production. The team

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[112] WikiHouse (n.d.) http://spacecraft.co.nz
[113] Personal conversation with Danny Squires and Martin Luff, 21 June 2013

is analysing several business model options to maximise accessibility, affordability and sustainability. I am confident that WikiHouse NZ will be positioned to expand far beyond Christchurch to provide a whole new model of safe, affordable housing.

5   THE SOCIAL ENTERPRISE ECOSYSTEM

The Need for a Social Enterprise Policy

Many governments have policies designed to stimulate social enterprise. However, New Zealand does not have a social enterprise policy, and can benefit enormously from lessons learned elsewhere.

> Government has a critical stake in new business models that provide public benefits. Government is sometimes an early provider of resources to new enterprises through grants and investments or a customer through the procurement process. For the intermediaries and infrastructure on which social enterprises depend, government can provide stability for nascent markets. Policy-makers may see these new markets as a way to leverage and maximise limited resources and to deliver public services as efficiently as possible. But this work requires close coordination between public, private and civil society stakeholders to move from policy goals to practical results, which can be complex.[114]

Six policy areas drive social innovation and enterprise:

Engage Market Stakeholders
Foster Network Development and Ideas Generation

Develop Government Capacity for Action
Clarify Need for Policy and Align Internal Resources

Build Market Infrastructure and Capacity
Develop and Capitalize Intermediaries and Knowledge

Prepare Enterprises for Growth
Ready Private Actors to Attract Capital and Scale Business Models

Grow and Direct Private Capital
Motivate Investor Participation

Review and Refine Policy
Evaluate Performance and Respond Quickly to Learnings

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[114] Schwab Foundation for Social Entrepreneurship (2013), page 7
[115] Ibid, page 8, graphic adapted by Andy Mitchell (2013)

1. Engage market stakeholders – government can break down existing silos that prevent growth and promote generation and sharing of ideas. Develop structures that promote communication and coordinated action between investors, entrepreneurs, civil society and policy-makers.

2. Develop government capacity for action – clarify the need for government action and align internal resources. Some governments consolidate functions; others create new accountable entities. The goal is to create a government hub to partner with other sectors.

3. Build market infrastructure and capacity – develop and capitalise intermediaries

4. Prepare for enterprise growth – help build capacity, attract capital and increase demand for investment. Policy needs to be grounded in understanding of needs of entrepreneurs and their obstacles to scale

5. Grow and direct private capital – incentivise private investors to participate in the social investment market

6. Review and refine policy – evaluate performance and revise policies.

In New Zealand, social enterprise is evolving slowly from the ground up without policy supports to foster development. A multi-sector approach to design policy and strategy levers will accelerate the pace of growth and results. The time is right for leaders across sectors to join forces to proactively invest to grow the pipeline. In government, steps one to three listed above will initiate the process. My research indicates that many stakeholders are poised to join government to shift from a neutral stance to proactive investment in social enterprise.

Once I discovered how immature the field is in New Zealand, I decided not to analyse specific policy issues in-depth. Following is a brief overview of a possible management structure and issues to consider related to funding and legal form. Certainly tax issues, procurement and other potential barriers and supports will require more careful examination.

Management Structure and Funding

As highlighted in the Schwab report, some governments organise social enterprise efforts by consolidating existing activities and others establish new functions. Since New Zealand does not have many activities to integrate, I recommend the formation of a social enterprise pilot hub, based at MBIE. The development process for social enterprises closely resembles commercial small business incubation. Lessons from the UK, Australia, US and elsewhere emphasise the imperative for social enterprises to evolve from start-up to sustainable operation. If they stay small and grant- dependent they perpetuate the challenges of traditional not-for-profits. The true potential for social enterprise is to apply the full range of business tools to scale models that work. A hub based at MBIE would maximise coordination and efficiency and connect to other relevant work such as the network of commercial incubators. Other Ministries such as Social Development, Internal Affairs, Education, Health, Environment, Heritage and Culture and many others could identify liaisons or staff to contribute. It is imperative to establish close links with local government as well as connect the myriad players in central government that also drive social and economic development.

Seed funding could dramatically reshape the social enterprise landscape in New Zealand. Given how underdeveloped the system is currently, grants are needed to establish the infrastructure. Short-term investments will enable early stage ventures to build capacity and readiness for private investment options. Immediate funding needs are:

- Fellowships and other capacity development supports to engage and develop social entrepreneurs

- Seed grants for venture incubation and development

- Operational and programme funding for support organisations to expand networks, build venture capacity and cultivate a productive ecosystem.

The Government is fiscally constrained, and there is understandable reluctance to establish new programmes. Given the budgets of MBIE, MSD and DIA, it seems prudent to allocate $5 – 10 million for three years to establish a social enterprise innovation pilot. The government fund would encourage the leverage of additional capital. In addition to philanthropic contributions, crowdfunding is gaining momentum as PledgeMe demonstrates and there is potential to expand once regulatory restrictions are lifted. At present, using a crowdfunding website to raise equity for start-up businesses is not permitted as it breaches securities legislation. Proposed law changes under the Financial Markets Conduct (FMC) bill would allow businesses to raise equity via crowdfunding platforms.[116]

There has been an exploration of social lending taking place for a number of years in New Zealand. In 2009 Glen Saunders, chair of Prometheus Finance Ltd,[117] produced a report for ASB Community Trust and the Tindall Foundation to examine opportunities for philanthropic social lending. The following year Axford Fellow Laura Benedict continued this exploration.[118] I consulted with each foundation, Mr Saunders, and a number of other finance professionals in New Zealand to better understand why social lending is slow to develop. I reviewed international literature and consulted with Ingrid Burkett, an Australian specialist in social finance who works occasionally in New Zealand. The consensus is that there are simply not enough social enterprises that are investment-ready in New Zealand. It is a major hurdle to develop from early stage operations to meet criteria for financing. As Ingrid stated, "many small social enterprises simply do not have the basic foundation to secure financing." "It is not just specialist finance institutions that are needed to reach underserved markets, but a range of intermediaries that fulfil a number of key roles, including a focus on skills, investment-readiness, market building, advocacy and research."[119] In New Zealand the deficit is primarily on the demand side of the equation. The critical gap at the moment is the lack of grant funding to adequately prepare early stage ventures for growth. Just like commercial businesses, it is challenging to turn a promising idea into a product or service to test, and then adapt based on customer feedback. All of this work must happen before a social venture can conduct financial projections or go to market. If the Government aims to pursue innovation, there must be early stage capital to test promising ideas for social impact.

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[116] Jackson (2013)
[117] Prometheus is a Qualifying Financial Entity established in 1983 as a charitable trust
[118] Benedict (2010)
[119] Burkett (2013), page 27

Even though the immediate priority is to grow the demand pipeline, Ingrid Burkett cautions that it is important to prepare the supply side in parallel. There needs to be education, relationship building and exploration of financial structures that fit the New Zealand context. Glen Saunders explained to me that social finance emanated from private investors in most other countries, but the philanthropic sector may be better positioned to lead the way in New Zealand. Laura Benedict made the point in her 2010 report that New Zealand's community trusts could be a positive source for social lending. She noted that the 12 community trusts alone control $2.8 billion[120] in community-controlled assets that are mainly invested commercially in order to get the highest, safest return. If 20 per cent of the trusts used just five per cent of their assets for social lending, $28 million new dollars could be available to promote social goals. These numbers grow when you add New Zealand's other endowed foundations.[121] As social enterprises mature, social lending becomes a tool for accessing these assets. With proper supports, demand and supply are positioned to grow.

Support Organisations

International Models

Internationally, social enterprise ecosystem support organisations are expanding in parallel to the growth of new ventures. They operate at the community, regional and national levels as well as by industry and specialisation such as accelerators, social finance intermediaries and more. These organisations play an absolutely essential role to grow the pipeline and build capacity for growth. These are some trailblazers:

1. Founded in 1997, "to develop sustainable social enterprises to solve critical social problems in emerging economies", NESsT developed a proven ecosystem funding model scaled across Latin America and Eastern Europe, directly improving the quality of life of 280,000 marginalised people.[122]

2. Roberts Enterprise Development Fund (REDF), also started in 1997, is a San Francisco-based venture philanthropy organisation that creates jobs and employment opportunities for people facing the greatest barriers to work. They provide equity-like grants and business assistance to social enterprises with earned revenues of more than $115 million, and doubled monthly incomes for employees. They also conduct pioneering research on Social Return on Investment metrics and analysis.[123]

3. Enterprising Non Profits (ENP) is Canada's national portal to grow the ecosystem and includes a purchasing portal.[124] Canada is also home base for Sea Change Magazine, a site for international case studies and quality feature articles.[125]

4. Social Enterprise UK, a 10 year old membership organisation, coordinates campaigns, publicity, network growth and research.[126]

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[120] The figure was $2.63 billion for 2011/2012 financial year
[121] Benedict (2010)
[122] NESsT (2013) http://www.nesst.org
[123] REDF (2013) http://www.redf.org
[124] Enterprising Non-Profits (2013) http://www.enterprisingnonprofits.ca
[125] SEE Change Magazine (2013) http://www.seechangemagazine.com
[126] Social Enterprise UK (2013) http://www.socialenterprise.org.uk

Need for New Zealand National Ecosystem Support Organisation(s)

For social enterprise to prosper in New Zealand there is a need to invest long-term in a national support organisation and a network of community hubs. This graphic depicts the primary roles are of intermediaries:

Build an Engaged Community
Connect with policy-makers, trainers, investors, purchasers, entrepreneurs.
•Conversations
•Meetings, Conferences
•On-line engagement
•Business relationships
•Policy initiatives

Demonstrate Impact
Mapping, networking, research on social and financial impact Aggregated, sector-wide evidence to influence policy and practices

Social Enterprise

Increase Business Acumen
System of learning and skills development for blended value businesses across the social enterprise sector:
•Idea exploration
•Business planning
•Incubation
•Technical assistance

Provide Access To Capital
Development of social finance:
•Grants
•Loans
•Investment
•Patient capital and equity
To meet unique needs of blended value businesses:
•Feasibility
•Planning
•Launch
•Growth

Enhance Market Opportunities
Marketing and sales to match quality products and services
Make social component part of the purchase decision

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Some support organisations also engage in policy development, advocacy, research and mobilisation. In New Zealand, it is unclear whether all the roles of a national intermediary are best housed under one umbrella or a mix of organisations.

In New Zealand there are a few small organisations that assume some of these roles. Hikurangi Foundation, though industry-specific, has a national scope. They are currently incubating approximately 12 promising ventures: capacity building, business mentoring, bridging access to networks, technical assistance, validation and seed funding. They have five staff in Wellington and plan to hire more staff in Auckland to do business development and venture management. With board support to diversify and expand, and with proper investment, they could potentially serve as a national hub.

Social Enterprise New Zealand (SENZ) has developed an establishment board and business plan. The framework for this membership organisation replicates the model developed by Social Enterprise UK. To date, they have not secured funding, but they are actively pursuing investors to launch the plan.

Enspiral is a Wellington-based social enterprise hub that formed as a co-working space three years ago and has incubated 13 technology-oriented social enterprises. Their dynamic cooperative team is playing an increasingly active role as an ecosystem builder in Wellington.

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[127] Lepage, et. al. (2013)

Support organisations serve the full spectrum of social businesses, including existing not-for-profits with trading operations. Intermediaries become a clear and visible point of contact for other stakeholders. A social enterprise support organisation would serve as a liaison with Māori organisations and other constituencies to share and learn from each other.

I have personal experience with the dramatic role a support organisation can play to jump-start the social enterprise ecosystem. The Rhode Island intermediary was not well-resourced and provided limited value for a number of years. Once investors committed to a serious budget, the payoff exceeded expectations.[128] The first and most important role was to identify and connect people and resources that had been isolated. In just a few years, we developed youth and adult accelerator programmes; designed on-line entrepreneurship training for low-income ethnic minorities; convened the first national gathering on social enterprise and economic development; and partnered with our Congressman to draft legislation for federal assistance similar to small business supports. Our community intermediary, Social Enterprise Greenhouse, transformed from a small operation to a prominent national player in just a few years.

Social Enterprise Greenhouse Model

Social Enterprise Greenhouse – Rhode Island Support Organization

Community Hubs

Community-based hubs complement national intermediary organisations. Hubs are the local nexus to galvanise talent and resources. In the US they play a critical role to connect people locally and remotely through on-line networks. They coordinate and collaborate with local government. Examples are Flywheel in Cincinnati, Ohio;[130] Springboard Innovation in Portland, Oregon;[131] Centre for Social Innovation in New York City;[132] and Social Enterprise Greenhouse, in Providence, Rhode Island.[133]

Support organisations receive core funding from a mix of government and private grants, complemented by fee for service and other business operations. For New

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[128] Social Enterprise Greenhouse, http://segreenhouse.org
[129] Ibid, graphic adapted by Chloe Waretini
[130] Flywheel: Social Enterprise Hub (2013) http://flywheelcincinnati.org/index.php
[131] Springboard Innovation (2013) http://www.springboardinnovation.org
[132] Centre for Social Innovation (2013) http://nyc.socialinnovation.org
[133] Social Enterprise Greenhouse (2013) http://segreenhouse.org

Zealand to pursue meaningful strategy to grow the social enterprise sector, there is a need for hubs in Auckland, Wellington and Christchurch at a minimum.

Auckland

There is momentum to create such a hub in Auckland. I attended a scoping meeting in March to explore collaboration. The Auckland Policy Office, Auckland Council, ASB Community Trust, Hikurangi Foundation and AUT convened follow-up discussions. They have commissioned a report to propose a structure for increased collaboration and potential for collective impact. Community stakeholders will determine the shape of such an intermediary and that work is still in process. What is clear is that Auckland needs a coordinating entity and there seems to be substantial momentum to create that structure.

Christchurch

Wil McClellan is an articulate advocate for the value of intentionally-designed co-working space.[134] Wil co-created EPIC Innovation with Colin Anderson in the wake of the Christchurch earthquakes. They created phase one, The Sanctuary, to convene displaced small business owners who were committed to stay in the CBD and needed safe office space erected quickly. EPIC tapped Google to guide the building design, co-habited by 20 companies and 300 staff. Communal space facilitates mingling locally and technology enables connections with hubs around the world. Sigma, EPIC's second phase, is a blueprint for an iconic innovation campus for Christchurch.

Wil never considered whether EPIC is a social enterprise. Their motivation was to quickly create a space that was safe and productive in the CBD. They could have chosen a suburban site, but their intention was clearly to help lead the resurrection of Christchurch as a vibrant business centre. EPIC is not a classic social enterprise, but it would be a mistake not to appreciate it as social entrepreneurship in action.

Christchurch benefits from another dynamic hub, Ministry of Awesome, formed in the wake of the earthquakes to see the city rebuilt in a smarter, hipper, greener, connected and generally more awesome way than before. Ministry of Awesome germinates, nurtures and empowers people to re-imagine Christchurch.

Ngāi Tahu[135] is another important player in the Canterbury region and since the earthquakes they are partnering more actively with the broader community. Mark Solomon, Ngāi Tahu Chair, believes that including them in the Canterbury Earthquake Recovery Authority (CERA) legislation put the tribe front and centre in the city's recovery.[136]

Ngāi Tahu divides its commercial and social operations post-settlement[137] and is sometimes criticised for separating its highly lucrative commercial land holdings, fisheries and other business operations. The strategy is profitable. Revenues were

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[134] Personal conversation, May 2013

[135] Te Rūnanga o Ngāi Tahu was established in 1996 to advance the interests of 18 South Island Papatipu Rūnanga

[136] Sachtleben (2013)

[137] In 1840, the British government and many Māori leaders signed the Treaty of Waitangi. After many years of dispute about its interpretation, beginning in the later part of the 20th century, these disputes started being settled with large amounts of cash, other assets, and privileges transferring to iwi. The settlement process continues today.

$209.3 million in 2012, total assets $809.4 million and operating surplus $55.1 million.[138] Ngāi Tahu distributes a portion of assets to support tribal members – $14.7 million in 2012.

I visited Ngāi Tahu in May. Business operations are in temporary quarters; they were displaced by the earthquakes like so many residents of Christchurch. I met with Catherine Savage who manages a partnership with six tertiary institutions to deliver culturally sensitive trades and agriculture training to Māori youth. Collectively they are investing $40 million. They work closely with local contractors to secure apprenticeships and provide pastoral care as needed to prepare fully qualified carpenters, a skill that is sorely needed in the region.

However, Solomon wants Māori youth to have higher aspirations than trades employment. "We want them to become future business leaders."[139] Perhaps that rationale explains plans for an entrepreneurship programme that Ngāi Tahu Manager Brett Ellison described. Ngāi Tahu wants to engage more tribal members to create their own wealth and they plan to establish a training programme for that purpose. Another social business in the works is a housing company. Ngāi Tahu is in early stage development with community partners to replicate Housing New Zealand models of staged ownership.

Neither Savage nor Ellison uses the term social enterprise to describe their projects. But when I defined the term they both agreed that Ngāi Tahu is beginning to create more integrated ventures that have both commercial value and a social purpose. "Yes," Ellison agreed, "these are social enterprises."

Wellington

'Absolutely Positively Wellington' is not just a slogan, it is an attitude shared by most people in the region.[140] The 'smart green capital' brand attracts creative and tech-oriented young people who like the scale of the city and perceive opportunities to gain experience that may seem less accessible than Auckland. Enspiral capitalises on this vibe as do other social entrepreneurs. What impresses me in Wellington is the spirit of collaboration across the social enterprise space. Social enterprise is humming in Wellington in large part because there is a great deal of respect among the varied organisations that translates to win-win working relationships. In spite of this good work, Enspiral and other social enterprises are severely under-resourced in Wellington, as elsewhere, and need access to capital to grow.

Enspiral Case Study[141]

In three years, Enspiral has made a substantial impact on the social enterprise ecosystem in Wellington, incubating 13 start-ups and becoming both a vibrant physical co-working space and a virtual community for social good. Enspiral is a social enterprise and venture incubator started by Joshua Vial, a computer programmer turned social change leader. Joshua became increasingly alarmed about the urgency of social and environmental degradation, and he started scrutinising innovative alternatives. He gave up a commercial business to channel his skills for

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[138] O'Neill (2013)
[139] Ibid
[140] Hubbard (2013)
[141] Based on several interviews with Joshua Vial and other Enspiral entrepreneurs, February-July 2012

social purposes. He opened co-working space on Allen Street and launched the Enspiral brand. At first Enspiral created opportunities for other service professionals who also wanted to shift their energy to work on 'stuff that matters.' Computer coders, accountants, lawyers, and designers flocked to the network. Start-ups such as Bucky Box, Loomio and Chalkle were launched as part of the Enspiral umbrella. Entrepreneurs and activists from Wellington gather frequently at Enspiral to work, strategize and build relationships. Visitors can rent a "hot desk" (temporary workspace) and connect with colleagues. On-line networking connects contributors within New Zealand and internationally.

What strikes me as unique about Enspiral is the community ethos. It is set up as a distributed network, designed to push power out to the contributors rather than reside among a select few. The collective is funded by contributions from its members. Each venture negotiates a revenue share agreement with Enspiral. Contributors choose allocations for collective discretionary funds monthly. People communicate through an on-line system, yammer,[142] and decisions are made using Loomio.

I was privileged to participate in the Enspiral annual retreat in June. The culture of the network came alive during the three days that blended serious work with walks in the woods, music making and important down time. The essence of Enspiral is trust and generosity among talented people who choose to be in community together to make the world a better place. Each person contributes value through professional expertise and diverse personal qualities. They share deep respect for each other. Collaborative leadership and intentional relationship building are core competencies for bootstrapped social enterprises.[143] Enspiral is positioned to leverage those capabilities to continue to grow and innovate.

Social Enterprise and Community Development

Social enterprise happens in communities. A prominent social business, such as a café, can be a seed that germinates other community development initiatives. Inspiring Communities features many powerful stories of these types of positive changes in Learning by Doing.[144] MSD launched the Social Sector Trials in six locations in March, 2011 to assess whether local communities would deliver youth services more effectively with local ownership. Positive results prompted expansion to 10 additional locations in July 2013. Communities like these that are actively bringing constituencies together to commit to a shared purpose are poised to promote social businesses that contribute to both social and economic improvement.

I already referenced Free Range Farm[145] in this report. Founder Linc Gasking is serial entrepreneur whose first business was CountingDown.com, sold in 2000 for $23 million. Linc met collaborator Josh Feast at the US NZ Partnership Forum in May 2013. Just two months later, they are developing plans for social innovation hubs across New Zealand. They have plans for 25 social businesses to join the Wellington space. Linc sees the space as a tool to create a cultural environmental that attracts and enables social businesses to thrive. He is lining up international investors and partners

[142] Yammer is a private social networking platform designed to maximize collaboration, file sharing, knowledge exchange and team efficiency.
[143] Ibid, page 16
[144] Inspiring Communities (n.d.) http://www.inspiringcommunities.org.nz
[145] Free Range Farm (2013) http://frf.co.nz

and is confident that the social enterprise is on the cusp of establishing its prominence in New Zealand.

Legal Structures

Legal frameworks are grounded in years of history and precedent, evolving over time. It is no wonder that nations are grappling to adapt structures for social enterprises, a hybrid form that does not fit neatly as a non-profit or company. New structures are emerging in different national contexts. Community interest companies formed in 2005 in the UK and the US is experimenting with Benefit Corporations and L3C.[146]

The Department of Internal Affairs (DIA) produced a scoping report to review the applicability of existing New Zealand legal structures for social enterprises.[147] Neither charity forms nor company structures are ideal for social enterprises for a variety of reasons. Fundamentally, a social entrepreneur seeks to attract investors and the bifurcated choice means that critical funding sources are more or less off-limits. Even if there are not legal barriers, perception can get in the way. At the early stage of development, social enterprises are generally more suitable for philanthropic or government funds than private investment. As they mature, charitable status can limit options for infusions of risk capital required for expansion.

The dilemma of which structure to choose was featured in a July article in the small business section of the *New York Times*.[148] ThinkImpact organises students to develop micro enterprises in Africa. Saul Garlick founded the non-profit when he was 18 and the concept took off quickly and grew to a budget of $400,000. By age 23 he started taking a salary and hiring other staff, at below-market wages. Eventually, Garlick found himself struggling with classic quandary between the need to raise funds and manage operational growth.

Garlick met investors and other social entrepreneurs who provoked him to consider reorganizing the operation to a profit company. A fee-for-service business model would make debt and equity financing possible. The article presented pros and cons of three structure options: continue as a non-profit; restructure to a for-profit; create a hybrid with a for-profit subsidiary. Experts weighed in with advice. Jonathan Lewis, founder of MicroCredit Enterprises, a social enterprise that converted from a for-profit to a non-profit stated, "The distinction between non-profit and for-profit in my estimation is overestimated. The test should be what works in any given situation." A few days later Garlick announced his decision to turn ThinkImpact into a for-profit company.

Ingrid Burkett concurs with Lewis' assessment and so do I. "There is too much focus on structure. The more important issue is whether your business model holds up. Legal structure won't save a poor business model," Burkett said in a phone interview.[149]

I spoke with several social entrepreneurs who were denied charity status and felt that this decision created a substantial hurdle for their start-up. Social enterprises are facing unnecessary barriers according to lawyer Sue Barker. "I have seen social

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[146] Low-profit limited liability company
[147] Department of Internal Affairs (2013)
[148] New York Times (2013)
[149] Burkett personal communication 22 July

enterprises with clear charitable purposes turned down for registered charitable status. The DIA currently interprets charity very narrowly and its refusal to register social enterprises in my view is unhelpful. A negative indication by the DIA as to eligibility for charitable registration is then often used by IRD as determinative that an entity is not eligible for donee status either. All of this can sound a death knell for good social enterprises responding to identified social needs in an innovative way. It is a mystery to me why the regulators are placing such barriers in the face of good charities seeking to do good things for the community," said Sue.[150]

Social ventures that choose a company structure also face hurdles at fragile early stages. Trusts and foundations hesitate to fund them, regardless of constitutional charters. Increasingly, social enterprises in New Zealand are considering hybrid structures similar to what Garlick entertained. This is a common work-around in the US.

There is an eventual need to review legal forms to determine specific changes that are needed. First, the government needs to clarify whether it seeks to actively stimulate the sector.

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[150] Personal conversation 27 June 2013 and e-mail correspondence with Sue Barker

CONCLUSION

The Time is Right to Invest in Social Enterprise – Strategic Priorities

The time is right for collaborative cross-sector leadership to stimulate social enterprise in New Zealand. OECD member countries and many others actively enable social enterprise growth with mounting evidence of improved social outcomes, innovation and efficiencies. New Zealand will benefit from a multi-year pilot, based at MBIE, to test the potential of lean, impactful, sustainable social businesses.

Strategic action steps:

1. Assemble diverse social enterprise team at MBIE to propose and develop a national policy framework, and create collaborative networks in government, private and community sectors

   - Set a goal to grow start-ups and investment-ready ventures and establish evaluation benchmarks
   - Support the establishment of a national intermediary and hubs in Auckland, Wellington, Christchurch and possibly Dunedin
   - Conduct a review of policy barriers and opportunities.

2. Establish a $5 - 10 million seed fund for Social Enterprise and Innovation

   - National intermediary organisation and community hubs – operational and programmatic
   - Seed grants for early stage start-ups and social enterprise growth
   - National campaign to promote community service and social enterprise for young people
   - Social enterprise applied research fund.

3. Elevate social enterprise in tertiary institutions in coordination with community stakeholders

   - Assess partnership opportunities with overseas institution(s)
   - Increase academic papers, degree programmes, fellowships and research
   - Establish a student incubator programme in Auckland (partners across tertiary, Council, ASB Community Trust, Icehouse etc.)
   - Develop culturally sensitive / contextually relevant on-line resources
   - Develop post-graduate fellowship for 1-3 social entrepreneurs; pursue collaboration with Ashoka or other sector leader
   - Pilot a competitive summer accelerator programme similar to the one Creative HQ runs with Victoria University School of Design.

William Bridges, a thought leader on navigating rampant change, writes that we need to let go of what is not working before we become open to new possibilities. We repress the past and the future, stuck in an awkward and tense disequilibrium. "Repressing the future blocks the organisation's path to its destiny and leaves it buffeted by constant change."[151] It is time for New Zealand to boldly pursue

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[151] Bridges (n.d.)

empowered social businesses that will contribute to healthier communities, more sustainable social change mechanisms and innovative ventures that will make their mark in New Zealand and throughout the world.

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