todo: capital conversion matrix goes here

Three Rules for Designing the Social Enterprise

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There is no generally accepted rigorous definition of *social enterprise*. This is almost certainly a temporary state of affairs because, in the fullness of time, a legal framework akin to non-profit status is likely to arise from government finalizing the debate about what constitutes social enterprise.

However, a legal definition of a social enterprise will not necessarily help us design social enterprise business models or know exactly how to go about creating successful ones.

Triple Bottom Line (3BL) accounting practices are a source of significant insight into social enterprise, and I would like to present an analysis of the social enterprise conceptual framework from a 3BL perspective, using the *capital conversion matrix* (CCM).

Triple Bottom Line asks that businesses justify themselves in three ways: *natural* capital, *social* capital and *financial* capital are the terms from *natural capitalism* for these three "bottom lines." These three are often shorthanded as *planet, people* and *profit.*

Social enterprises predominantly define themselves as businesses which have a substantial impact on the second two bottom lines: cash positive with substantial social impact is the goal. But can we create a more insightful model of what a social enterprise really is?

The Capital Conversion Matrix
I first saw the CCM drawn on a whiteboard at the Rocky Mountain Institute in Snowmass, Colorado. It looks like this.

capital conversion matrix for a pizza joint	planet ↓	people ↓	profit ↓
planet ←	pollution from energy		
people ←			
profit/loss ←	veggies energy	sweat equity staff wages	pizzas bought interest on startup loan

This is a sort of 2D balance sheet. Resources come into the company at the top, and costs are at the side. Veggies come from the *planet* but cost *profit*. Staff are *people* and cost *profit*. Energy from the *planet* costs both *profit* and *planet*.

Using the *capital conversion matrix* to analyze a pizza joint is a sledgehammer to crack a nut. So let's try Grameenphone.

capital conversion matrix for Grameenphone	planet ↓	people ↓	profit ↓
planet ←			
people ←		phone ladies social network	network costs social connectivity
profit/loss ←		Grameen channels	phone call fees

This diagram shows that Grameenphone is *efficiently converting social capital to financial capital and back again.* Let's break that down. The network cost (red) improves social connectivity for customers. But the Grameen distribution channels - aided by that social connectivity - help to sell the phone services. Social capital to financial capital, and financial capital to social capital. *Grameenphone is a social enterprise.*

Defining Social Enterprise
I believe there are three definitive rules for designing a social enterprise.

i. A social enterprise must convert financial capital into social capital. A social enterprise must also convert social capital into financial capital. Each direction of this flow should be clearly identifiable, and the two flows together should form a positive loop, each supporting the other.

ii. A social enterprise should use its alignment of interests with its customers to reduce *customer-vendor conflict* thereby reducing transaction costs for both parties, as trust is value.

iii. A social enterprise should be net positive in both financial capital and social capital terms. It must be self-supporting financially, and produce objectively measurable social value.

CSR programs from conventional companies typically fail (i) in that there is no feedback loop between core business operations and any social component. They fail (ii) because they do not build real trust. Charities usually fail (i) and (iii) by simply converting money into social good.

The true social enterprise *is a company which grows social capital to achieve its triple bottom line goals.* The unique economic advantages of the true social enterprise will allow it to out-compete conventional businesses in many areas. I hope these models will assist with social enterprise design.

todo: discriminate between waste which cuts profits, and externalisation of costs on to nature or society.