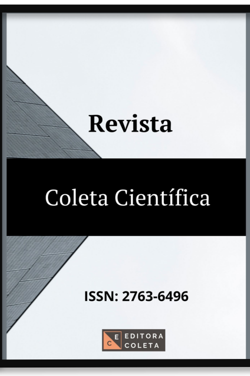

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CHARACTERISTICS AND INDICATORS OF FINANCIAL IMPACT OF SOCIAL ENTREPRENEURS

CARACTERÍSTICAS E INDICADORES DE IMPACTO FINANCEIRO DOS EMPREENDEDORES SOCIAIS

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RESUME

The theme of the work is the financial management of social entrepreneurship, and the broad business market that it covers. The social entrepreneur has different characteristics from other types of entrepreneurs in the application of financial resources, their results, impacts and considerations both nationally and internationally. The general objective is to show these characteristics in the context of financial investments, and to show its performance in society and in the contemporary economy. The results show the dynamic concepts, linked to new ways of undertaking and how businesses are developed, in the new forms of sustainable development, which is typical of this type of entrepreneurs.

KEYWORDS: Entrepreneurship. Social entrepreneur. Financial management

RESUMO

O tema do trabalho é a gestão financeira do empreendedorismo social, e o amplo mercado de negócios que ele abrange. O empreendedor social tem características diferenciadas dos outros tipos de empreendedor em aplicações de recursos financeiros, seus resultados, impactos e considerações tanto nacionalmente como internacionalmente. O objetivo geral é mostrar esta características no âmbito de aplicações financeiras, e mostrar sua atuação na sociedade e na economia

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contemporanea. Os resultados mostram os conceitos dinâmicos, ligados as novas formas de empreender e como se desenvolvem os negócios, nas novas formas de desenvolvimento sustentável, que é típico deste tipo de empreendedores.

PALAVRAS-CHAVE: *Empreendedorismo. Empreendedor social. Gestão financeira*

INTRODUCTION

In the United States and Europe, the first experiences of social entrepreneurship emerged in the 1960s, with the pioneering initiatives of civil society organizations in search of financial sustainability. In Brazil, the first initiatives emerged in the 1980s, but a large part of the enterprises currently in operation emerged in the 1990s, such as Associação Saú de Criança and the Committee for the Democratization of Informatics, both in Rio de Janeiro, and the Palmas Bank, in Fortaleza.

The work is guided by the reflection on the sources of financing and the financial results of social enterprises and the category of impact investments. The financing of the social entrepreneur, following a concept that differentiates the social entrepreneur from the Civil Society Organization - CSO and in general from a Third Sector organization, according to the current legal framework, has different characteristics from the classic entrepreneur who finances himself with his profits and from the Third Sector that has government funding or donations. Thus, the objective of the work is to explain these characteristics.

This bibliographic research is justified by the discussion, not always clear in the literature, about social impacts, or high social impact ventures in which the social entrepreneur is included as the main agent. In particular, the use, in Brazil, of the term social impacts as a synonym for any activity that fits into social responsibility activities, corporate citizenship, should be more careful, instead of evaluating activities and market agents when impacts occur. A solidary or citizenship activity is not the same thing and an activity whose impacts are relevant to the market and society at the same time.

In another article, the authors clarified the concept of social entrepreneur and its impacts (MARTINS and AVENI 2020). In particular, the processes and agents of social impacts were clarified, showing how there is an often hybrid chain that can be polarized and idealized without motivation, conferring the seal of social impacts only on social activities and organizations such as CSOs, movements and associations that operate in and out of the market. In this second work, the financial management of a social entrepreneur is explained, completing the subject previously discussed.

The work initially addresses the topic of what is a social entrepreneur and what are his financial sources and financial management. A discussion of the relevant aspects follows to show the results achieved. At the end there is a conclusion that closes the job.

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SOCIAL ENTREPRENEURSHIP AND SOCIAL BUSINESS

Social entrepreneurship is a field of socio-environmental action and of doing business, which aims to achieve two goals considered irreconcilable: generation of social impact and economic value. Currently, there is a debate on the definition of this field of action, involving the role of social entrepreneurs in the economy and their interaction with civil society and public policies, one of the pioneers in this field, defined social entrepreneurs as; individuals who act as agents of change, develop new solutions to social problems, implement these solutions on a large scale and contribute to transforming society.

In the practice of social entrepreneurship, aspects of innovation and social vision are emphasized, that is, innovation in the business model and in the form of operation, as well as the construction of a shared vision of how to meet social demands and solve problems. environment, as in the following definition:

> "a process that involves an innovative combination of resources to explore opportunities that meet social needs and catalyze social change". Mair and Marti (2006 page 22):

On this topic, Comini (2011) presented the different definitions used in national and international literature to identify social enterprises. According to the author, social enterprise, inclusive business (including business) and social business (social business) are some of the terms used to identify organizations that "aim to solve social problems with efficiency and financial sustainability through market mechanisms".

Naigeborim (2011) explains that using market mechanisms means that "these businesses must operate under the same commercial rules as any other business, that is, operate by the law of market supply and demand". According to the author, these projects are planned in order to generate enough resources to cover all their operations and also contribute to their growth. However, in these businesses "profit is not an end in itself, but a means to develop solutions that help reduce poverty, social inequality and environmental degradation".

In a more specific approach, Yunus (2008) defines social business as an enterprise with the following characteristics:

a) its mission is to meet the demands of low-income and more vulnerable population segments;
b) develops and sells products and services adjusted to these social demands;
c) generates sufficient income to cover its own expenses;
d) reinvests a part of the economic surplus in the expansion of the business, while the other part is kept as a reserve to cover unexpected expenses;
e) has investors who do not receive profits in the form of dividends, but can receive the investment back after a period.

In 1976, Yunus created the first social business operating with these characteristics, Grameen Bank, which offers microcredit to the population at the base of the economic pyramid in Bangladesh. Reading Yunus's story and explanations, his concept of a social entrepreneur becomes clear.

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Faced with the problems faced by communities in his country, he had the vision that access to capital, even on a small scale, can transform people's lives. From this vision, the entrepreneur created an innovative business model, as he describes:

> “I helped launch a global movement called microcredit, which helps the poor by offering them small loans without collateral. The value of these loans is very low - 30 or 40 U$ dollars - and these people can use the money to start small businesses. Credit is provided to women and about 94% of the bank's shares are in the hands of the borrowers themselves. “(Yunus, 2008).

In Yunus' conception, those individuals who conduct social businesses are considered social entrepreneurs, but not all of them undertake activities of this nature, as is the case with civil society organizations that depend on philanthropy. For Yunus, the social entrepreneur must lead a change in culture and work so that this change can change the market in a way that favors everyone, especially the excluded, in business and makes the market more sustainable. In Yunus' conception, the social entrepreneur is not an NGO or a charitable company, much less an ideological political social movement.

Another approach, which proposes the eradication of poverty through entrepreneurial initiatives of a social nature, was presented by Prahalad and Hart (2002) in the article The fortune at the bottom of the pyramid. Unlike Yunus, the authors defended the proposal to create businesses that reduce costs and improve the quality of products and services offered to families located at the base of the economic pyramid. The difference with Yunus lies in the proposal to reduce prices possible with new and better technologies and not in supporting market participation with new sources of income.

The underlying assumptions are twofold: the first is that this population represents a large-scale profitable market, decreasing the value of the margin but increasing the number of sales, for companies; the second is that the consumption of more accessible and adequate products and services increases the quality of life of these families. In other words, it triggers a positive spiral that benefits everyone.

The base of the pyramid population was defined as four billion people in the world who have a per capita income of less than US$ 1,500 per year, that is, a purchasing power parity of less than US$ 2 per day.

Thus, Yunus et. al. (2010), when considering that these business strategies, aimed at the population at the base of the economic pyramid, do not believe they are a social business strategy insofar as they prioritize the objective of generating profit and the social impacts are not direct. London (2009), one of the authors of the bottom of the pyramid (BoP) approach, recognized the difficulty in assessing the social impact of these strategies in terms of eradicating poverty and increasing the population's quality of life. These are indirect impacts.

Based on the criticisms, Hart and Simanis (2008) reformulated this approach, calling it BoP 2.0, based on the premise that communities located at the base of the economic pyramid are entrepreneurial and have valuable skills and knowledge. Therefore, entrepreneurs who wish to do business with these communities must

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enter the informal economy in which they operate and build a network of organizations connected by mutual trust.

The business model is co-created with the involvement and partnership of the set of local actors, who are the stakeholders benefited by the business. The authors cite as an example the Grameen Phone venture, formed by Telenor, a Norwegian company, and Grameen Telecom, a non-profit organization, aiming to provide cellular telephony services to communities at the base of the economic pyramid (BoP) in Bangladesh. Thus, the authors approach their proposal to Yunus's conception of social business, emphasizing the creation of innovative business models based on the social entrepreneur's immersion in the reality of vulnerable and low-income communities.

In parallel with the discussion on the concept of social entrepreneurship, several initiatives are being developed to give legitimacy and recognition to these enterprises. In the United States, the B-Lab organization created the B-corp or Benefit Corporation certification, based on standards of socio-environmental impact and transparency. To receive this certification, the social entrepreneur answers a questionnaire for each sector of his business, in addition to having audited his production process.

The organizations that make up the B-corporations network aim to redefine the concept of business success through an innovative legal framework, with new laws to regulate the way of doing business based on the values of social justice, equity, transparency and sustainability. New legislation on B-corporations already exists in nineteen US states. By 2012, six hundred enterprises had been certified in fifteen countries (B-Lab, 2012).

This movement of social entrepreneurs is present in Brazil, coordinated by CDI Lan, a certified B-corp based in São Paulo. In summary, studies on social entrepreneurship indicate that the field is expanding worldwide, as well as its potential and dynamism are based on the diversity of organizations and actors involved, whether civil society organizations or entrepreneurs who create businesses aimed at socio-environmental impact and the distribution of profits simultaneously. In the plurality and heterogeneity of social entrepreneurs, there is a common intention to bring about changes in the living conditions of the most vulnerable and low-income population segments, based on innovative business models.

In the 1990s, other American academic institutions began to work in the field, such as the Fuqua School of Business at Duke University, which created a teaching and research center (Center for the Advancement of Social Entrepreneurship). Organizations that support social entrepreneurs emerged, such as the Nonprofit Enterprise Self-Sustainability Team (NESsT) and the Social Enterprise Alliance in 1997, and the Institute for Social Entrepreneurs in 1999. In addition, numerous academic publications debate the field, such as the Journal of Social 7 Entrepreneurship, the International Journal of Social Entrepreneurship and Innovation, the Social Enterprise Journal and the Stanford Social Innovation Review.

In England, social entrepreneurship was spread in the 1990s by academics such as Charles Leadbeater, author of The Rise of the Social Entrepreneur, and

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Michael Young, founder of the School for Social Entrepreneurs. In universities, research and teaching centers such as the Skoll Center for Social Entrepreneurship at Said Business School were opened. Currently, there are independent organizations, such as Social Enterprise UK, a network that aggregates more than fifteen thousand social enterprises in the United Kingdom and seeks to influence public policies for the sector.

In Brazil, the first initiatives in the field of social entrepreneurship emerged in the 1980s, "in the face of growing social problematization, the reduction of public investments in the social field, the growth of third sector organizations and the participation of companies in investment and social", according to Oliveira (2004).

The initiatives of Brazilian social entrepreneurs are aimed at the population groups covered by the government programs “Brasil Sem Miséria” and “Bolsa Família”, as well as the lower income group of the middle class, defined in a report by the Secretariat of Strategic Affairs (2012) with based on April 2012 values, namely:

- The extremely poor are those with a per capita family income of up to R $81;
- The poor, with a per capita family income between R$81 and R$162;
- The vulnerable , who have a per capita family income between R$162 and R$291;
- The lower class m is dia, with a per capita family income between R$ 291 and R$ 441; am is day class m is day, with per capita family income between R$441 and R$641.

DISCUSSION _

As financing a business is a strategic decision of the entrepreneur, since the mobilization of resources is strongly related to its potential for success in the short and medium terms, choosing the source of financing for the business is an important step in building the capacity to generate social, environmental and financial value. The social entrepreneur should consider using resources derived from donations or past earnings to finance social impact activities, more than the classic entrepreneur. It can also resort to financing from banks for current activities, waiting for discounts and active participation from financial institutions.

One of the biggest challenges for social entrepreneurs is gaining access to other financing and attracting investors, especially in the early stages of the business cycle. In order to meet the growing demand for capital mobilization to finance social entrepreneurs, since the late 1990s the investment ecosystem has been developing, which brings together private foundations, fund managers, equity investors, financial institutions and accelerator organizations, which share the intention of generating socio-environmental impact in addition to financial returns.

Investment market in impact companies

It is estimated that in 2011, investments for social impact activities directed US$ 4.4 billion to 2,200 projects worldwide, more than half of them in the USA. and Canada and the rest in business in India, Russia, China and countries in Latin

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America and Africa. The preferred sectors are education, health, credit and basic services such as clean water and housing. (ASSISI, 2012)

In this scenario, an aspect to be considered is that social enterprises, as hybrid organizations, seek greater autonomy of action and governance models that include different stakeholders, to ensure that their social mission is effectively carried out. Thus, these organizations avoid accepting the traditional venture capital contribution, known as venture capital, which generally implies greater strategic-operational control by the shareholders.

In a survey carried out in the USA, Haigh and Hoffman (2012) report that 60% of hybrid organizations seek long-term investments known as "patient capital", while 12% prefer loans or investment funds with an expected return lower than market rate.

Thus, the segment that has been showing a growth trend worldwide for financing social entrepreneurs is impact investing funds, which are organizations responsible for raising funds from private investors and directing these resources to loans or equity participation in businesses. social projects, aiming at financial return and social impact simultaneously. Currently, impact investment funds are focused on emerging or developing countries (CREMONEZZI ET AL., 2013).

To perform a global estimate of impact investing, the bank JP Morgan (2013) surveyed 99 investors and revealed that in 2013, funds were expected to invest up to US$9 billion in impact businesses, 12, 5% more than in 2012. Of those who intended to invest in developing markets such as Brazil, 47% cited education as an area of interest, second only to food and agriculture (63%), financial services and microfinance (59%) and health (51%).

In Brazil, seed capital funds allocate investments between BRL 500,000 and BRL 2 million in startups and small companies seeking investment to structure and grow their business. Venture capital funds, which is the venture capital that an investor applies in a new business, invest between R$2 million and R$10 million in companies that already have a structured business model and are prepared to grow. Private equity funds invest in mergers and sales between large companies, which normally involve amounts above R$10 million.

Another form that is growing in importance is venture capital. This investment in emerging companies represents a lower amount invested than the private equity contributions. On the other hand, due to the high risk of investments in emerging companies, venture capital funds have a greater number of companies in the portfolio in order to diversify risks. (BRAZILIAN AGENCY FOR INDUSTRIAL DEVELOPMENT - ABDI, 2011)

A survey conducted by the Aspen Network of Development Entrepreneurs (2012) in Brazil identified fourteen impact investing companies, 86% of which are in the Southeast region of the country. These investors include civil society associations (36%), private companies (29%), international or multilateral organizations (14%) and foundations, public companies and investment companies with their own resources (7% each type). The data also indicated that 14% of investors expect a 20% to 30% return on investment after five years, while 86% of them aim for between 50% and 60% return.

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Among the impact investment funds in the country, which invest risk capital in social businesses, are Vox Capital, FIRST and MOV Investimentos, among others, which focus mainly on businesses in the areas of health, housing, education and microfinance aimed at the base of the pyramid and with return potential. Whether through equity interest or convertible debt, investment in early-stage businesses (seed, early-stage, startup) is an investor strategy to enable growth with gains in scale, financial returns and positive social impact.

The development of the field of impact investing is still emerging in the country and in the world and its development requires not only a change in the mindset of the various stakeholders, but the construction and dissemination of new standards of metrics and impact assessment methodologies, as well as public policies and new legislation that encourage the development of these businesses. According to Bugg-Levine, et al. (2012), investments in social enterprises will remain chronically insufficient and inefficient if transparent methods of measuring and monitoring the socio-environmental impact generated are not implemented.

According to Aveni (2019) in addition to the classic forms of financing: financial institutions and public financing, which was integrated into institutionalized microcredit systems, today there are specialized networks and funds as well as angel investors and Crowdfunding systems that allow raising funds and financing. directly on the capital market.

The form of cooperation with Associations and companies specialized in startup and acceleration of the social enterprise is a novelty that should not be underestimated because to have access to forms of cooperation. These investors provide a means to improve the company's human capital, as they intend to expand and maintain a network. The phenomenon of network collaboration is a key element to understand why there are many new forms of funding, this stems from the current increase in the development and use of social networks; (AVENI 2019)

Financial impact indicators

The management of resources obtained to finance activities must generate results linked to the objective of generating socio-environmental impact, that is, improving the living conditions of low-income populations in a state of social vulnerability, as well as guaranteeing the preservation of the environment.

To this end, they seek indicators of short, medium and long-term changes in the communities in which they operate. According to Barki and Torres (2013), there are three dimensions of change in the socioeconomic conditions of low-income families:

- the reduction of transaction costs ;
- the reduction of social vulnerability and
- the increase in individual and family assets .

Transaction costs involve expenses incurred by families as a result of the difficulty in accessing quality public services and consumer products suited to their needs and purchasing power. Reducing social vulnerability refers to access to products and services that reduce the exposure of this population to the risk of

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disease, unemployment, death, extreme poverty, violence, drugs and environmental contamination. And the increase in family assets goes beyond generating income and jobs, including access to quality housing, health services and education.

One of the conceptual references used is the field of public policy evaluation, in which evaluation is considered essential for the development of forms and instruments of public action. The approach used is the logical matrix model, whose modalities identify three evaluation orders: goals, processes and impact. The evaluation of goals seeks to measure the most immediate results of the activities carried out, such as the number of people treated in health centers or the number of hospital beds, among others. Process evaluation aims to monitor and evaluate program implementation procedures, as well as identify intervening barriers and obstacles.

Impact assessment consists of measuring the effects produced on society and, therefore, beyond the direct beneficiaries of public intervention, under the motivation of measuring its social effectiveness. According to Trevisan and Bellen (2008), this objective assessment makes the diagnosis of the changes that actually occurred and to what extent they occurred in the desired direction. In this way, we seek to evaluate the medium and long term results in order to establish the cause-effect relationship between the actions of a program and the results obtained.

The logic matrix is one of the methods of evaluation guided by the theory of the program (theorybased program evaluation), also known as the theory of change, which proposes an impact evaluation based on a conceptual model of how a program generates the expected impacts (outcomes). This method includes the chain of connections between the theories of the program (process and impact). Process theory includes the program's input, activity, and output phases. Impact theory, in turn, includes short, medium and long-term outcomes. (Coryn et al. 2011).

Currently, initiatives are being developed to create conceptual models and social impact assessment methods. These include the Impact Reporting and Investment Standards (IRIS), a dictionary with standardized definitions of social, environmental and financial impact metrics; organized into five areas: description of the organization; Product Description; financial performance; operational impact; and product impact. This taxonomy of metrics aims to contribute to the measurement of the socio-environmental and financial impact of social enterprises and impact investments. This tool was developed in 2009 by the Global Impact Investment Network (GIIN), a network of investors and philanthropists promoted by the Rockefeller Foundation, aiming to build a conceptual reference for the analysis of the impact of investments (GIIN, 2013).

Another way to assess impacts from a financial goals and indicators point of view is the Global Impact Investing Rating System (GIIRS), in turn, is an impact investment rating system developed by B-Lab, which considers four assessment areas - governance, employees, communities and the environment - and compares the impact generated by areas such as education, job creation for young people, or alternative energies. Both the GIIRS and the IRIS are conceptual and methodological

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references to measure the results (outputs) of a business, but not the dimension of the impacts (outcomes) (GIIRS, 2013).

The Social Return on Investment (SROI), another approach to impact assessment, is a set of guidelines to financially measure the impact of social investment. The objective is to calculate the social cash flow based on the net present value, to arrive at the return on investment. This method was developed by an American foundation, The Roberts Enterprise Development Fund, whose objective is to quantify the economic value created with social investment.

In Brazil, the implementation of socio-environmental impact assessment approaches and methodologies by entrepreneurs and investors is still emerging and challenging. Among the difficulties are both the costs involved, the scarcity of reliable and consistent databases, as well as the lack of experience and knowledge about evaluation techniques, among other issues. Thus, the development of the field of social entrepreneurship involves the challenge of elaborating and measuring metrics of social and financial returns on investments, in order to plan strategic changes, improve business models and attract investors.

RESULTS

The current final synthesis summarizes the various types of financing, and impact indicators by the scope of social businesses and intended social impacts. Civil society organizations that do not generate their own income, nor traditional profitable companies, are not considered social businesses or enterprises. The scope includes the following types of social businesses: civil society organization with own income generation; civil society organization associated with a social business; social business that reinvests its profits; production or commercialization cooperatives, whose members are part of the vulnerable segments of the population; social enterprise that reinvests part of its profits and distributes dividends; company that seeks profits and that includes social businesses in its value chain. Social businesses and enterprises can be financed by own resources, loans or venture capital funds.

Business impact includes three categories: social impact, financial return and mixed return (social and financial). The indicators derive from management and projects. Using the Logical Matrix, targets and target indicators are defined. The logic matrix defines these goals for the activities to be developed to solve a problem. This problem derives from a cause-effect analysis defining a social impact. Another indicator system is the Impact Reporting and Investment Standards (IRIS) organized into five areas: description of the organization; Product Description; financial performance; operational impact; and product impact. Another is the Global Impact Investing Rating System (GIIRS), which is a rating system for impact investments developed by B-Lab, which considers four assessment areas - governance, employees, communities and the environment. Another system is the Social Return on Investment (SROI), another approach to impact assessment, which is configured as a set of guidelines to financially measure the impact of social investment. Finally, in view of the need to quantify outcomes, the experimental randomized controlled trial

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(RCT) method is considered the most appropriate to identify causal relationships, being used in clinical trials in the health area.

This synthesis must be coordinated in the accounting, in the sense that for each impact activity, or intended impact, the resources used must be shown in order to make an assessment of the feasibility and future sustainability of social activities.

Table 1 - Summary of results

FUNDING of impact activities
• Own revenue generation via donations or transfers per project • Re-investment of profits from business activity • Empr is esteem • investment funds • Venture Capital • crowdfunding
IMPACT INDICATORS impact indicator systems
• a logical matrix • Impact Reporting and Investment Standards (IRIS) • Global Impact Investing Rating System (GIIRS), • Social Return on Investment (SROI) • Randomized controlled trial (RCT)

The social entrepreneur can thus take advantage of resources available in the market that are not the traditional resources of startups and technological innovators. On the other hand, it must carefully maintain a system of impact indicators that justify the application of the financial resources used in its activities.

FINAL CONSIDERATIONS

Despite having evaluated financial results, the most significant result, the social and cultural impact, that social entrepreneurs will be able to achieve in the short term is revealed in the change of mentality, in the sense of coming to believe that the most difficult problems in the world can be resolved with a mix of capitalism and non-profit activities.

In the current work, the characteristics of a financial management of the social entrepreneur were shown, starting from the sources of financing and methods of financing and showing systems of analysis of the social impacts generated.

Together, these analyzes can clarify for each company its social impact by segregating financing and projects, that is, listing the financing and resources involved by each intended impact activity. In this way, the social impact and its financial management become clearer, in addition to the discourse and reports that serve as communication and improvement of the organizations image.

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