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# Opportunities for the Dutch Social Enterprise Sector



# Introduction

A great new phenomenon is emerging in the Netherlands – the Social Enterprise – with the potential of having significant impact on our society and ultimately on the planet at large.

Social innovation is required to fill the growing gap between what governments and philanthropic organizations provide, and what commercial enterprises offer. Social Enterprises form a great opportunity to bring this social innovation. **We define a Social Enterprise as a company with the primary goal to deliver social value in a financially sustainable and independent way<sup>1</sup>.** Social Enterprises contribute to solving social issues ranging from global challenges such as climate change and unfair distribution of profits throughout the value chain, to national challenges such as rising costs for healthcare and vulnerable groups of people lacking access to our labor market.

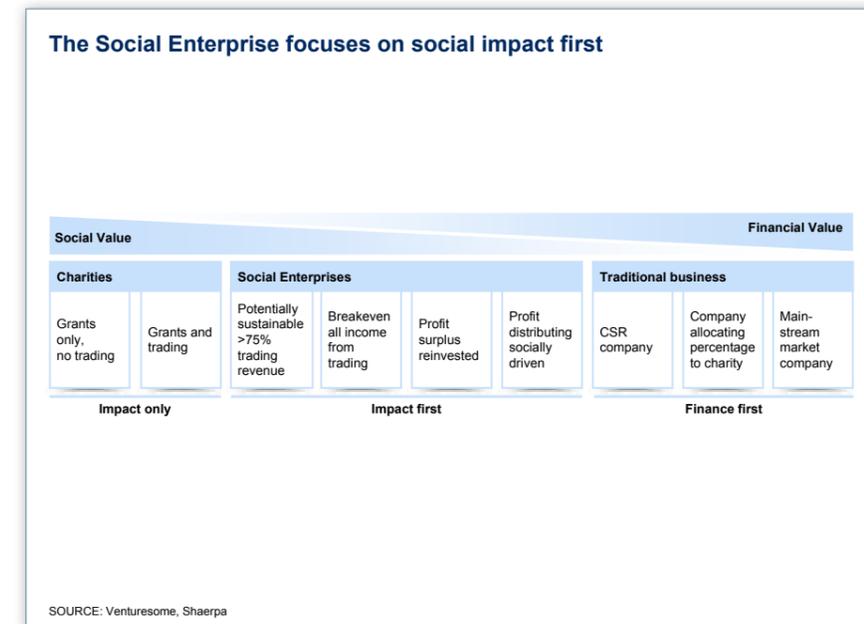


Figure 1

While there are many different ways to approach social issues, Social Enterprises have a unique and distinctive role in driving holistic and sustainable system change:

- Social Enterprises have great innovation capabilities, responding swiftly to the demand of consumers. Their superior value proposition can drive change across the industry and bring traditional enterprises along.
- With their self-sufficient economic model, Social Enterprises provide sustainable solutions to social issues.

<sup>1</sup> Despite broad academic interest and publications an internationally shared definition for “Social Enterprise” and “Social Entrepreneurship” is still lacking: recent international research summarized twenty of them

The products and services of Social Enterprises cover all relevant social issues, as diverse as labor participation, climate change, and affordable healthcare. Social Enterprises with the biggest potential for a meaningful contribution to these domains are companies that have: 1) a significant ambition, 2) an innovative and scalable approach, and 3) an attractive economic model to ensure investments in growth, independence, and financial sustainability.

Examples of Social Enterprises that manage to combine social and economic value creation are: the Grameen Bank in Bangladesh which extends microcredit to provide opportunities for the bottom-of-the pyramid, the Max Havelaar fair-trade organizations (originally from the Netherlands but now active internationally) offering local farmers and workers more security and better terms, and Greenwheels, a car rental agency in the Netherlands with an innovative car sharing scheme.

We are convinced that an attractive economic model can go hand in hand with delivering social impact. First of all, the company can capture part of the social value created by charging a price premium to consumers. Secondly, there is a cost benefit from reducing raw material waste. And thirdly, its inspirational ambitions will be so appealing to superior talent from all disciplines, that they may well be satisfied with moderate wages.

In countries such as the US and the UK, the Social Enterprise trend started earlier and developed stronger, compared to the Netherlands. We are still in its early days – Social Enterprises are pioneering, supporting initiatives are in development, and keen interest is emerging from the new generation. However, we believe that the Dutch – being innovative, entrepreneurial, and socially engaged – possess the right DNA to fuel a significant Social Enterprise movement.

Willemijn Verloop, with the support of McKinsey & Company's Amsterdam office, has undertaken a focused effort in the past months, to map the current landscape of Social Enterprises in the Netherlands, and understand what it takes to truly boost this sector. We conducted over 70 interviews, launched a survey among ~700 Social Entrepreneurs, analyzed the performance of ~100 Social Enterprises, and studied international best practice support models. In this document we present our findings, structured as follows:

- Overview of the Dutch Social Enterprises field
- Challenges and success factors for Dutch Social Enterprises
- Support networks for Social Enterprises

## Overview of the Dutch Social Enterprises field

In this section we provide an overall picture of the current Social Enterprises landscape in the Netherlands. We received response from ~100 Social Entrepreneurs on a survey, and analyzed the financial performance of ~100 Social Enterprises to understand these companies better. This provides insight into such features as their social impact, financial performance, educational and professional background of their entrepreneurs, and sources of capital.

### Presence of Social Enterprises

Currently the number of Social Enterprises in the Netherlands is still limited with approximately 4,000 – 5,000 companies in place. Not all of these companies truly fit our definition regarding the ambition to scale up and drive system change. The average size of the Dutch Social Enterprise is relatively small. When we benchmark this sector in the Netherlands to other countries, there may be an upside potential to more than double the number of Social Enterprises to 10,000, and increase the amount of jobs in Social Enterprises from 24,000-30,000 to 100,000 (figure 2).

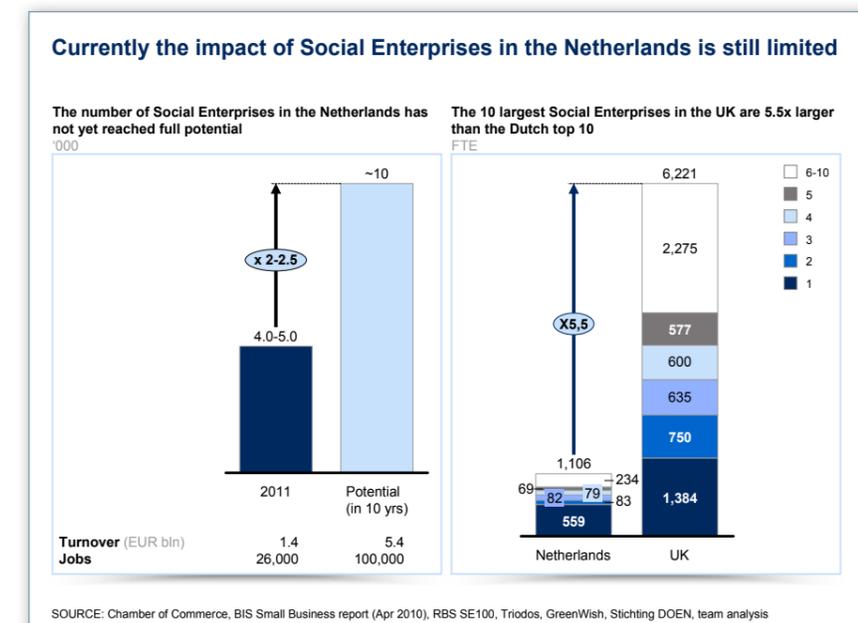


Figure 2

The majority of Dutch Social Enterprises that we have found is active in six broad sectors: Biosystems, Cleantech, Economic Development, Civic Engagement, Health and Wellbeing, and Education (figure 3). Based on a sample of ~700 Social Enterprises, we found that Biosystems is the largest segment consisting mostly of organic farmers. Cleantech is the second largest and highly diversified sector focused on new sources of energy and energy efficiency. Health and Wellbeing is the least diversified sector, with many care farms. In Economic Development we have found a broad range of fair trade organizations. Education has only a limited number of Social Enterprises. Smaller sectors such as Housing, Culture, Sports, Meaningfulness, and Human Rights were considered out of scope because they are either too small, or because their mission is too profound to be economically viable.



Figure 3

Examples of successful Dutch Social Enterprises today include: Greenchoice (provider of green energy), Fair Trade Original (Trademark for Fair trade products), Greenwheels (car sharing), Tendris (a.o. LED lighting), Triodos Bank (financier of Social Enterprises and socially responsible enterprises) and Ctaste (fully dark restaurant that employs visually handicapped staff). Furthermore, two examples of Social Enterprises have proved to be successful via replication: organic farms and care farms. Although none of these farms may be particularly well-known, aggregated they are certainly sizable.

It can take Social Enterprises years to develop their product, design their business model, and obtain growth capital. This was the case for NICE International, which builds solar-powered ICT service centers in developing countries operated by local entrepreneurs on a franchise basis. Optimizing their technology, running successful pilots, and obtaining growth capital took almost ten years but NICE is now in the position to rapidly expand the number of NICE-centers and grow their social impact.

**Social impact**

Although social impact is what it is about for Social Enterprises, almost half of the Social Enterprises that responded to the survey do not measure their social impact (figure 4). Those Social Enterprises that do measure social impact mostly use specific impact indicators and/or use the reach of their organization as a proxy for social impact. A typical indicator of reach is the number of people supported. Typical ways to measure social impact are number of people employed (in case of labor participation) or amount of CO<sub>2</sub> reduction (mostly applicable in Cleantech). Only a small share of respondents used advanced methodologies such as Social Return on Investment (SROI).

Clearly, a simple universal approach to measuring (and hence comparing) social impact is not available. However, several developments can be seen: SROI is a principles based method for measuring environmental or social value relative to resources invested, the Impact Reporting and Investment Standard (IRIS) offers a set of KPIs that can be used to measure social impact, and the Tools and Resources Assessing Social Impact (TRAS) is a database of impact measurement standards initiated by McKinsey.

With their primary goal of increasing social impact, many Social Enterprises freely share their knowledge, for example by coaching other Social Enterprises. A stellar 78% of Social Enterprises in Civic Engagement and 67% in Health and Wellbeing said they share knowledge openly.

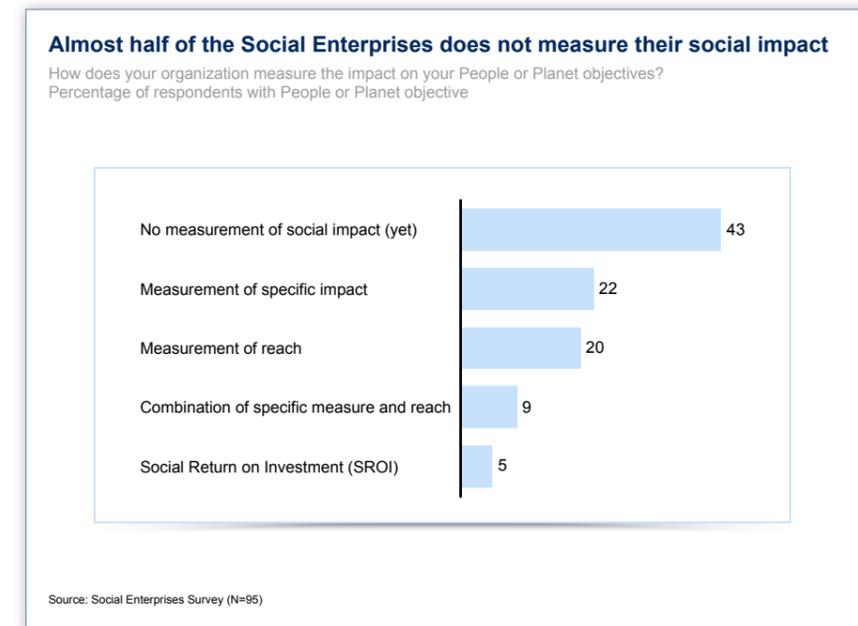


Figure 4

*Financial performance*

More than half the companies we found have a turnover of less than EUR 80,000. Almost half of the Social Enterprises we identified are not yet break-even.

The largest companies are in Cleantech, where over one third of the enterprises have turnovers larger than 1 M EUR. Historically Cleantech companies achieved the highest growth (figure 5). Cleantech and Economic Development have the highest ambition for growth in profit.

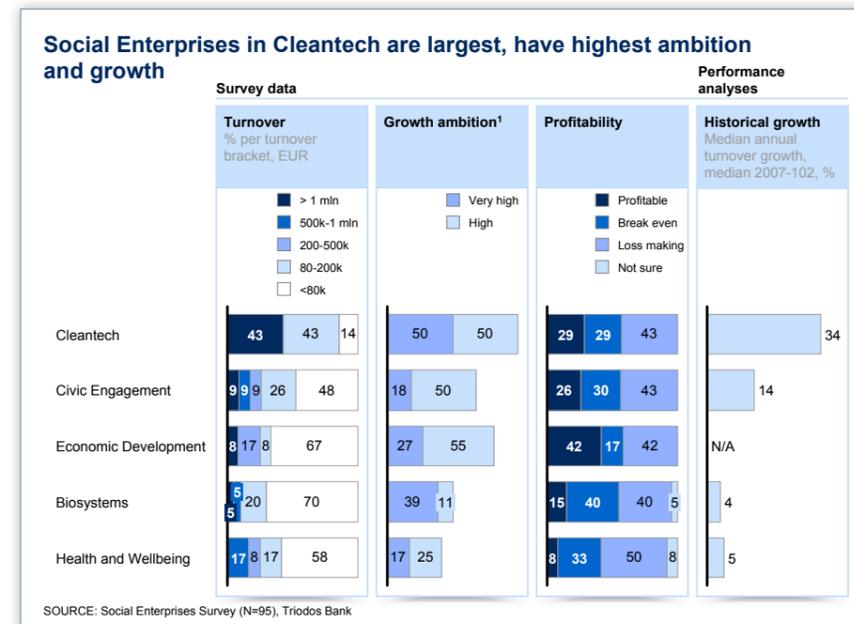


Figure 5

*Sources of capital*

Social Enterprises finance their activities with different types of capital. In addition to own capital, subsidies and donations are important especially for start-ups. Loans and equity investments are more demanding forms of funding since investors require returns on their capital (figure 6).

The majority of Health & Wellbeing and Cleantech companies (75% respectively 67%) rely on subsidies, but many entrepreneurs expect these subsidies to decline. Loans are most common in Cleantech and Biosystems, which could be explained by the capital-intensive nature of their activities. The lack of collateral in Economic Development makes it harder for entrepreneurs in that sector to secure loans.

Entrepreneurs in all sectors expect the amount of equity investments to rise in the years to come.

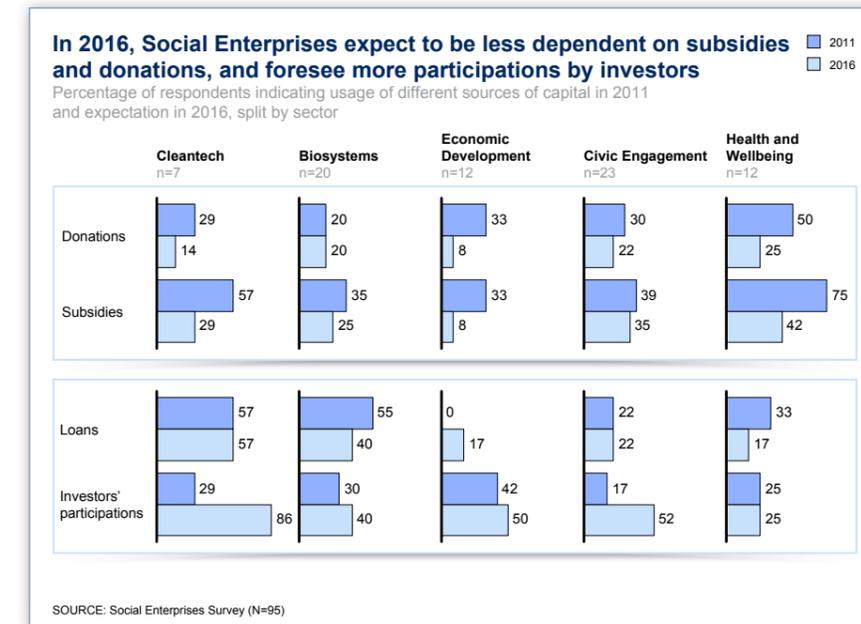


Figure 6

# Challenges and success factors for Dutch Social Enterprises

Social Enterprises go through various stages of development, similar to traditional companies, starting with idea generation, going via start-up phase, professionalizing phase, and ultimately through the growth phase. We have analyzed the specific challenges that Social Enterprises encounter in each phase, and what elements contribute to their success.

## Challenges

We have found that many Social Enterprises struggle to grow past the professionalizing phase and get stuck in what is sometimes called “the valley of death”. Here they face four main challenges: 1) Untraditional and complex business models, 2) management development issues, 3) limited access to (venture) capital, and 4) legislation issues.

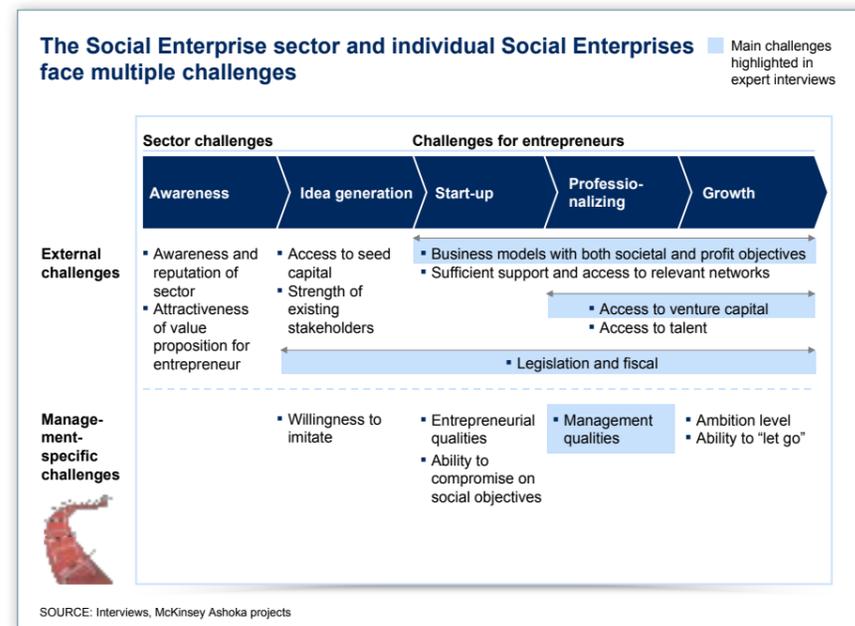


Figure 7

**Developing business models** with a focus on both social goals and a profit goal is challenging and generally requires more time in comparison with developing more traditional business models. Our research shows that 42% of Social Enterprises is not profitable, 27% not even after five years. (Figure 5 shows differences per sector). However, this need not deter Social Enterprises in the Netherlands, because the biggest and most successful Social Enterprise to date, the Grameen Bank, took almost 10 years to reach profitability in micro-finance.

A similar story holds for NICE International, who we referred to earlier. The process from optimizing their technology, refining their business model, running successful pilots, and obtaining growth capital took almost ten years but NICE is now in the position to rapidly expand the number of NICE-centers and grow their social impact.

The difficulty of developing a sound business model is confirmed in our survey where 46% of the respondents indicated that covering all costs is one of the main obstacles for growth.

To many Social Entrepreneurs, the transition to manager in the professionalizing phase poses significant **management challenges** such as scaling up production, managing multiple clients, and using data to steer the company. This need not be surprising since many of these Social Entrepreneurs lack entrepreneurial instincts (figure 8):

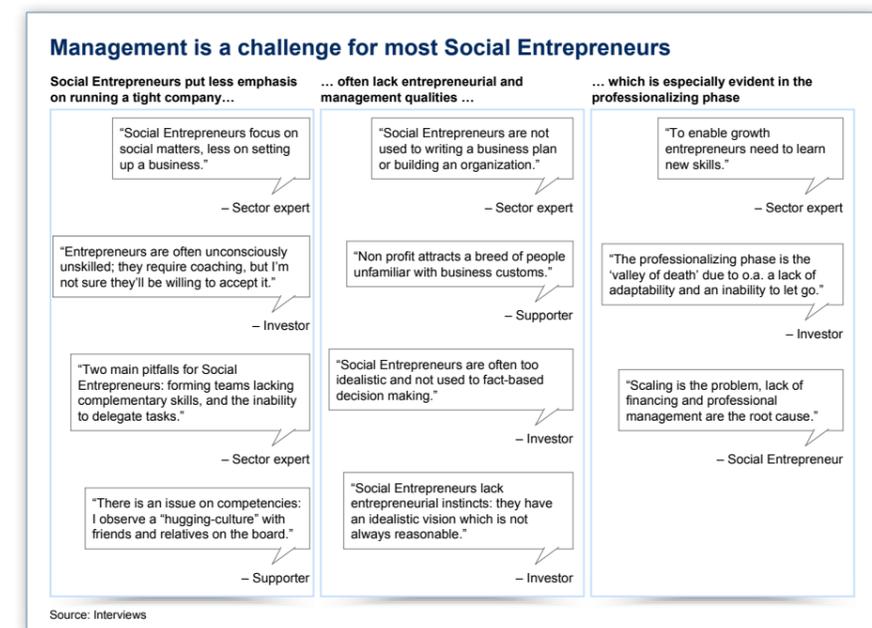


Figure 8

The third main challenge in the professionalizing phase is the transition from relatively abundant and not very sophisticated seed capital (<250k) to **scarce and more demanding venture capital**. Our survey results show that almost 60% of the Social Enterprises in the professionalization phase indicate limited access to funds as an obstacle for growth.

Based on our analysis, we estimate that approximately EUR 600-650 million of funding is available for Social Enterprises in the Netherlands. Of this approximately EUR 250 million is seed capital available for companies in the start-up phase. The bulk of this money consists of subsidies and friendly investments, and/or donations by philanthropic foundations and family trusts.

The remainder of EUR 350-400 million is available for companies in the professionalization phase. We estimate the total demand for these funds to be a factor ~3 higher. This funding gap is even bigger for the real innovative companies. Unlike enterprises with proven business models they cannot get access to bank financing which makes up more than 50% of the capital (approximately EUR 250 million). The remainder of the capital (~EUR 100-150 million) comes from subsidies, family trusts, and Venture Capital funds (figures 9 and 10).

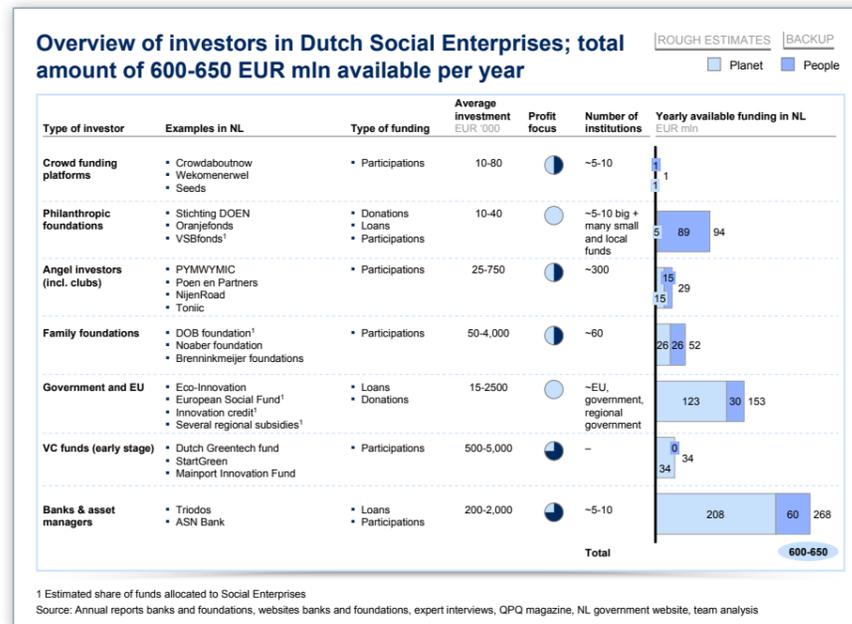


Figure 9

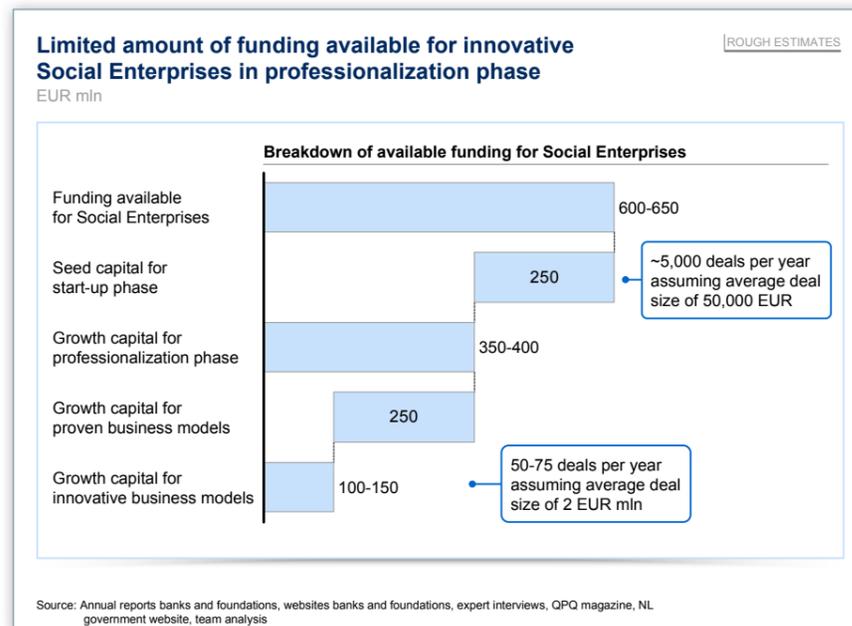


Figure 10

The final hurdle identified in our survey and interviews is **legislation**. While charities can get tax exemption, Social Enterprises (which are commercially active) cannot. Similarly, while giving to charity is tax-deductible, financing Social Enterprises is not which limits the funding available. Investors prefer a good financial return on their invested capital and give some of these returns to charity. The UK is trying to tackle part of the legislation issue by a specific legal form introduced in 2005: the Community Interest Company (CIC).

Furthermore, Social Enterprises in Health and Wellbeing are struggling with existing legislation and uncertainty concerning future legislation. New companies have a tough time competing in this market with its strict regulations and the inertness of the large existing stakeholders.

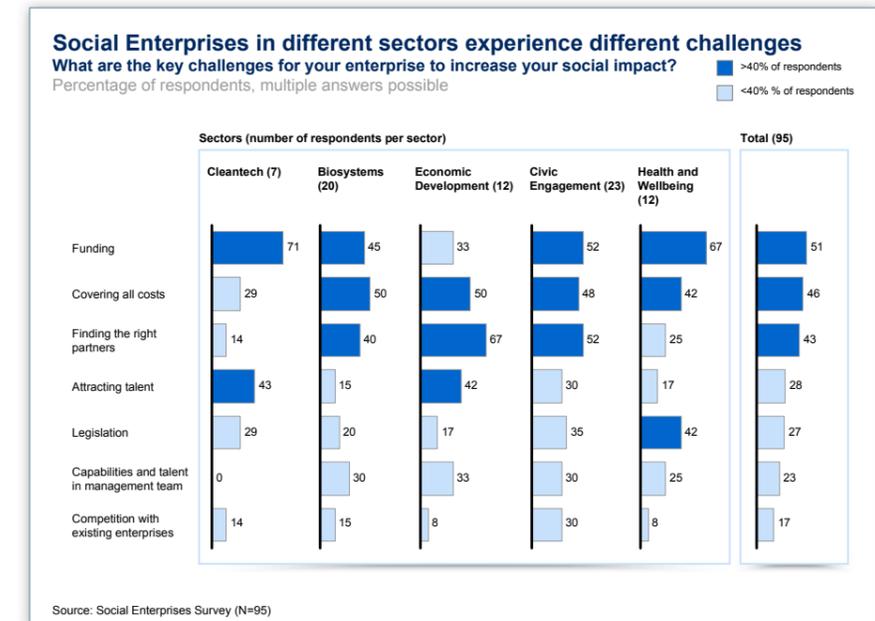


Figure 11

As can be seen in figure 11, these four main challenges are present across all sectors. Some challenges are stronger in specific segments, like obtaining finance in Cleantech, and finding the right partners in Economic Development.

More than three quarters of the Social Enterprises that responded to our survey recognize the need for additional support to meet these challenges. Suggestions include getting access to funding, refinement of business models, access to relevant networks and lobby for beneficial legislation.

**Characteristics of successful Social Enterprises**

We examined how certain characteristics of the Social Enterprises of our study relate to their size, growth, and profitability. Of course, ideally we would also compare social impact but as stated earlier this particular data is not available. The insights are as follows:

Social Enterprises independent of subsidies and donations are larger in terms of turnover and ~2.5 times more often profitable than enterprises that do depend upon subsidies and donations (figure 12). They are also more ambitious and have less difficulty in getting access to finance. Those Social Enterprises that in 2011 still depend on subsidies and expect to be independent on subsidies and donations in 2016, do have a higher growth ambition (figure 13).

Furthermore, companies currently independent of subsidies perceive access to financing as a smaller (but still significant) hurdle: 44% of subsidy-independent versus 72% of subsidy-dependent Social Enterprises perceive getting access to financing an obstacle.

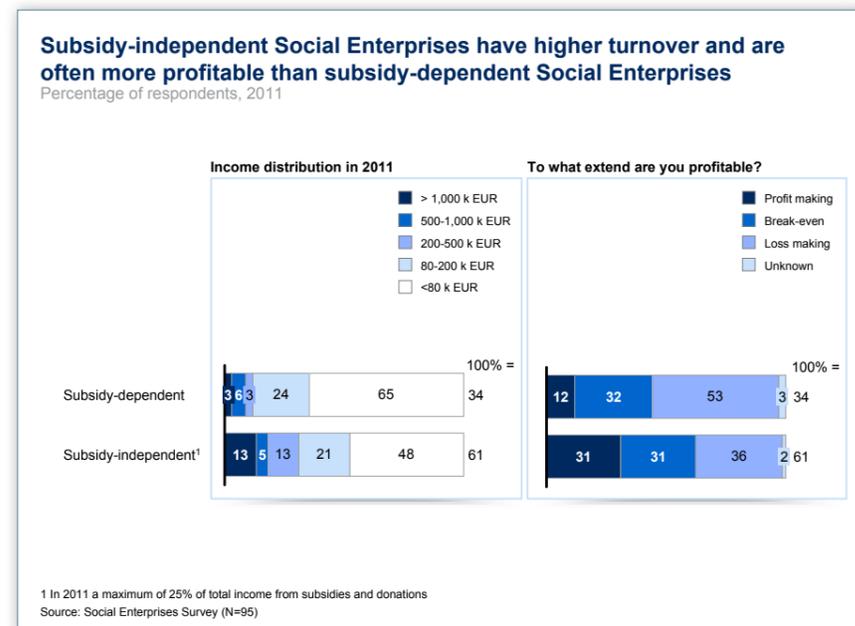


Figure 12

**High turnover growth ambition exists with currently subsidy-dependent Social Enterprises aiming for subsidy independence in 2016**

Level of ambition of respondents who are subsidy dependent in 2011

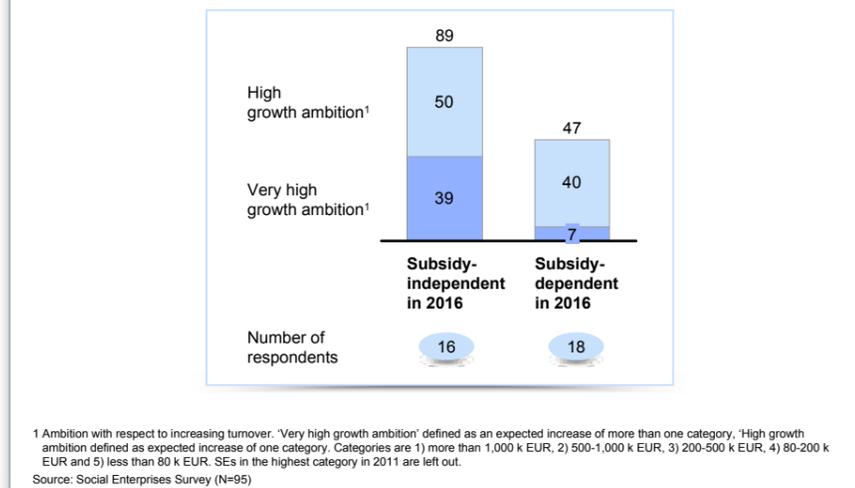


Figure 13

The most *innovative* Social Enterprises have a high risk/high return profile in terms of profitability and on average have high growth rates. Our survey results show that Social Enterprises with innovative products/services have a relatively high chance of being profitable but also run a higher risk of losing money (~50%). Less innovative Social Enterprises, on the other hand, have a less extreme profile with approximately 50% of them being break-even (Figure 14).

**Credit risk of innovative enterprises is relatively large; they are often more loss making than non-innovative enterprises**

Did your product/service exist before your enterprise started?

Profitability per category of innovativeness

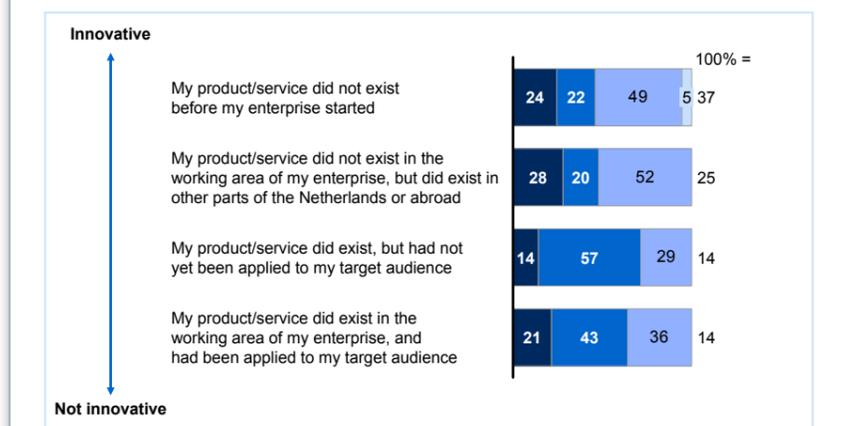


Figure 14

# Support networks for Social Enterprises

Our analyses of ~100 Social Enterprises indicate that innovative Social Enterprises have on average higher turnover growth rates but lower EBIT margins (figure 15).

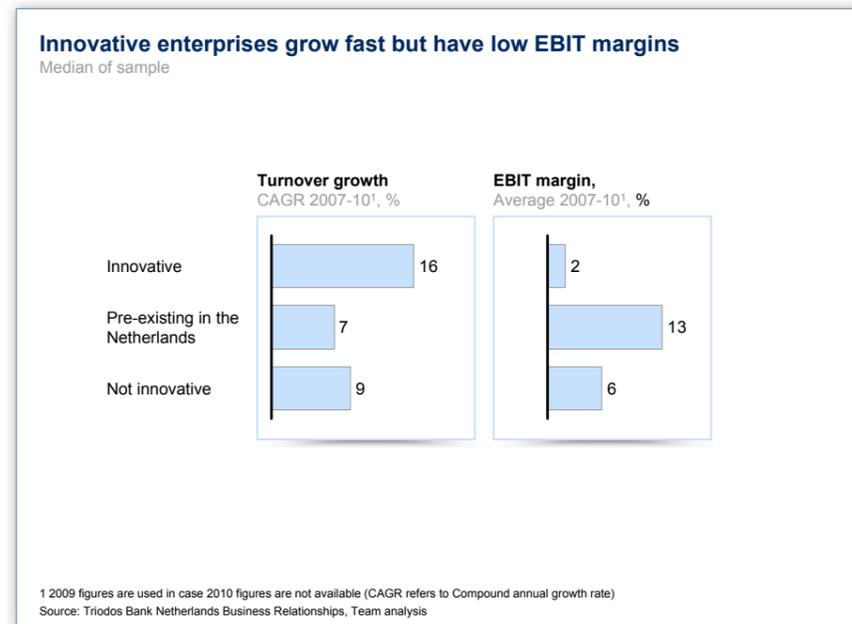


Figure 15

The background of the entrepreneur is often perceived as an important indicator for his/her success. However, our survey shows that neither a long work experience nor entrepreneurial experience before starting a Social Enterprise is predictive for financial success. We see a slight advantage for people with a high level of education to create a financially successful Social Enterprise (figure 16).

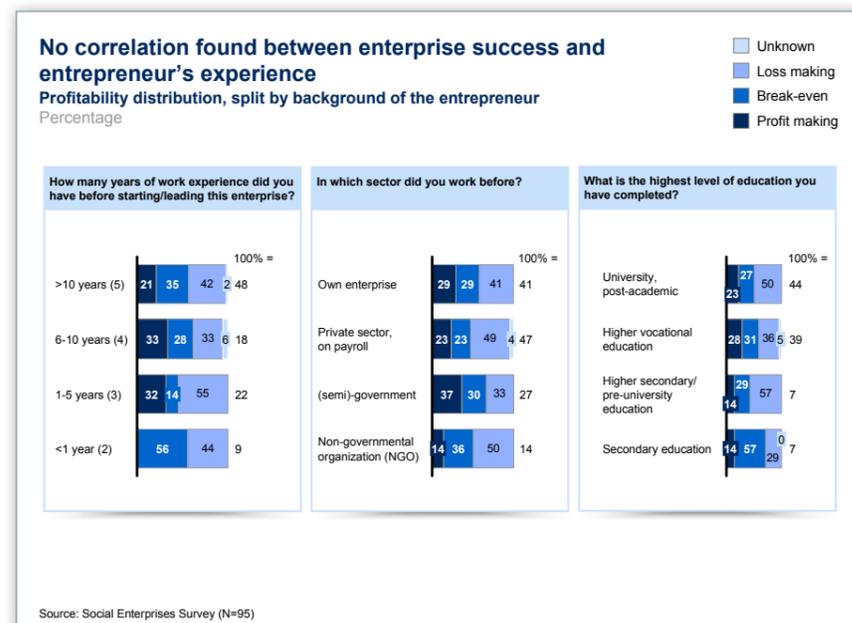


Figure 16

The Social Enterprises sector is further developed in other countries. For example, the US and the UK have a long history of supporting Social Enterprises and shaping the Social Enterprise sector. In this section we describe several international support initiatives and indicate how they have succeeded in helping the Social Enterprise sector to flourish. Subsequently, we briefly outline the current support situation for Social Enterprises in the Netherlands and suggest how we can learn from the international experience.

## International best practices

There are different ways in which both public and private initiatives have helped a variety of Social Enterprises to grow and flourish. Although these initiatives use different definitions for the terms Social Enterprise, Social Entrepreneur and social innovation, we describe some of them below.

### Promoting the field

Promoting the concept of Social Enterprises and social innovation to the public, policy makers, and other stakeholders will help to grow this field. Promotion increases awareness and reduces prejudices. Furthermore, it can activate important stakeholders such as governments, large corporations, and investors. Examples of international supporting organizations include Ashoka, the eldest/first initiative in this field that now supports almost 3,000 Social Entrepreneurs worldwide, the Skoll Foundation which organizes the Skoll World Forum, or the Schwab Foundation. In the UK, Social Enterprise UK campaigns to make the wider public aware of Social Enterprises and the Social Enterprise Mark has been introduced as a certificate.

In recent years the Schwab Foundation partnered with Harvard, Stanford and INSEAD to increase education and research on Social Entrepreneurship. In the UK the Skoll Centre for Social Entrepreneurship at the Saïd Business School at Oxford was initiated with the mission to foster social innovation through education, research, and collaboration.

### Supporting Social Enterprises

Another group of support organizations focuses its activities directly on Social Enterprises. Organizations like The Unreasonable Institute, Endeavor and UnLtd couple Social Entrepreneurs with consultants, experienced entrepreneurs, and investors. These experts coach the entrepreneurs on refining their business models and improving their management capabilities. They also offer support on access to funding and some of them actually offer financial support. Apart from coaching, participants of these programs also value meeting other Social Entrepreneurs to exchange views and share experience. Figure 17 shows a list of organizations supporting Social Enterprises and their activities.

**Network and coaching are essential for Social Enterprise support organizations, funding is often available as well**

	Type of coaching			Level of interaction	Size and length of program
	Personal	Content	Resources (prize-money)		
<b>StartSocial</b>	✗	✓	✓ (prize-money)	🕒	<ul style="list-style-type: none"> <li>3 month program, with 1 long moment of interaction</li> <li>3-5 hours of coaching per year</li> </ul>
<b>Echoing Green</b>	✓	✓	✓	🌐	<ul style="list-style-type: none"> <li>21 participants in 2 year long program</li> <li>Starts yearly</li> </ul>
<b>UnLtd</b>	✓	✓	✓ (prize-money)	🕒	<ul style="list-style-type: none"> <li>3 programs per year for small, medium and large enterprises (respectively 1000, 50, 25 participants)</li> </ul>
<b>Ashoka</b>	✗	✓	✓	🕒	<ul style="list-style-type: none"> <li>3 years of funding, fellowship is for life</li> <li>Currently &gt;2000 fellows</li> </ul>
<b>Oranje Foundation Growth program</b>	✗	✓	✓	🕒	<ul style="list-style-type: none"> <li>2 years of monthly classes for 25 participants</li> </ul>
<b>The Unreasonable Institute</b>	✓	✓	✗	🌐	<ul style="list-style-type: none"> <li>25 participants in 6 week training</li> </ul>
<b>Endeavor</b>	✓	✓	✗	🕒	<ul style="list-style-type: none"> <li>1.5 year long support program with tailor-made Advisory Committee</li> </ul>

- For start-ups a chance for sponsoring is important driver to apply, for growers this is less relevant (as sponsored amount is insufficient to finance the organization)
- Next to content support mostly peer interaction and personal coaching are valued
- Sponsoring and prize money may lead to dependence and distance between initiative and entrepreneur (not willing to share all issues through fear of losing sponsorship)

Figure 17

### Stimulating innovation and Social Entrepreneurs

Creating social innovation takes time and money. Echoing Green and Ashoka support entrepreneurs with grants to cover their cost of living for a couple of years.

Scaling social innovation is a significant challenge for Social Enterprises. Ashoka offers globalizer and localizer programs, through which entrepreneurs are supported in scaling their innovations. Hystra is a French organization that aims to connect social innovation with corporations, in such a way that the latter include these social innovations into their business.

### Regulation initiatives

The lack of appropriate regulation for Social Enterprises can be a hurdle for Social Enterprises to become attractive and successful. The Social Enterprise Coalition in the UK successfully lobbied for a distinct set of tax regulations to facilitate financing of Social Enterprises. Similar regulations exist in the US, where young Social Entrepreneurs do not need to pay taxes.

European politics also has the huge potential of Social Enterprises on their radar screen. Recently, the European Commission initiated two initiatives with a big role for Social Enterprises.

First, the European Commission launched 'Social Innovation Europe' in March 2011 with the objective to create a dynamic, entrepreneurial, and innovative new Europe. Social Innovation Europe will become a virtual and real meeting place for all stakeholders in social innovation including of course Social Enterprises. Its focus is on connecting the field.

Second, the European Commission sees Social Enterprises as future job generators. The Commission adopted the Single Market Act to boost the European economy and create jobs. One out of twelve projects of the 2012 Single Market is about encouraging Social Entrepreneurship with the focus on creating access to financing in their so-called Social Business Initiative. At the time of writing, a public consultation is ongoing titled 'Promoting Social Investment Funds' which is part of this initiative.

### Support for Social Enterprises in the Netherlands

There are several organizations and initiatives with different objectives and approaches that aim to support Social Enterprises in the Netherlands. There are broadly four categories of organizations involved in this field:

- Coaches, supporters and education facilities that provide learning opportunities: examples include ACE Amsterdam, Oranje Fonds Groeiprogramma, GreenWish, Kirkman Company, Knowmads
- Investors and matchmakers that provide access to capital: examples include Triodos Bank, Toniic, Dutch Greentech Fund, PYMWYMIc, the Noaber Foundation and several family trusts
- Researchers that aim to create transparency: the majority of this research is done at Nyenrode Business University and Erasmus University Rotterdam
- Lobby organizations that aim to improve legislation for Social Enterprises: examples (mostly planet focused) include GreenWish, De Groene Zaak, Duurzame Energie Koepel

Other parties include The Hub and Seats2meet both of which provide office space and hence are meeting points for Social Entrepreneurs.

The field of supporters is fragmented and a cross-sector vision is lacking. Many of the above-mentioned supporters are focused on a specific sector/type of Social Enterprise. The SSO, Stichting Sociaal Ondernemen, was a first attempt to form a platform organization but unfortunately is no longer active.

#### *Opportunities for support*

To stimulate and grow the Social Enterprise sector in the Netherlands we will need active support from intermediaries, investors and the government. The following fields need strengthening and/or development:

- Promotion: awareness and visibility of the sector in the Netherlands
- Education: more talent needs to be geared towards the sector
- Support: management support in developing triple bottom line business models, coaching and access to relevant networks
- Capital: access to seed and especially growth capital and matchmaking intermediaries
- Guidelines: (inter)national standards for measuring both financial and social impact
- Government recognition and support: for example in creating right conditions and opportunities for Social Enterprises to grow (e.g., supportive legislation)

#### *To be continued...*

We believe Social Enterprises can have a huge positive impact on Dutch society. Hence, we want to help boost this sector beyond its current size and scope. We are investigating two initiatives: 1) setting up a national platform organization to promote and stimulate the field, support enterprises, and lobby for legislation and 2) raising a "social venture capital" fund to support to the most promising Social Enterprises.

## *A word of thanks*

We would like to express our gratitude to all who have helped us in writing this report through insightful conversations, passionate challenges, and access to information and personal networks:

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*We would like to keep the dialogue open, so share your views and suggestions with us. You can reach us at [SocialEnterpriseNL@mckinsey.com](mailto:SocialEnterpriseNL@mckinsey.com)*

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Otto van der Molen*



