

Challenges and Tensions in Developing Inclusive and Sustainable Businesses in Nonprofit Organizations: A case study from the South

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Abstract

The development of social business within traditional nonprofit organizations creates conceptual questions, managerial challenges and ethical questions. This paper will focus on a case study of a respected NGO in Argentina working with the very poor in the outskirts of Buenos Aires, called Fundación Sagrada Familia, later rebranded as Vivienda Digna (VD). Created in 1979 to work on social promotion and strengthening families, Vivienda Digna focused its work on facilitating access to decent housing. After 25 years of developing self-construction projects and microcredit programs for housing improvement, VD decided to launch a social business based on collecting and selling used materials and furniture to poor and non-poor families and built an operation which both contributed to the social mission (advancing decent housing for its clients) and generated financial surplus for the organization. The case study allows to analyze the tensions in this process of creating and consolidating a social business in several dimensions such as organizational identity (moving from a social service model to a commercial model), ethical dilemmas (how to assign donated furniture and building materials among low income clients and “regular clients”), business model change (donor market, client profile, product offering, pricing, etc.), and operations (value chain management, internal organization, etc.). The analysis is part of

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the work of the authors about social business and inclusive business in the nonprofit sector in a Latin American context, and on the emergence of social enterprises and the transformation of the social sector because of adopting business practices and commercial approaches as part of the impact model. This paper will build upon previous publications by the authors and enrich existing literature by focusing on the transformative process in the nonprofit organization that decides to engage in this strategy change, the dilemmas confronted and the impact on the organization and on mission achievement.

Keywords

Social Enterprises; Social Business; Socially Inclusive Business; Hybridization; Housing; Argentina.

Introduction

Developing social businesses within traditional nonprofit organizations creates conceptual questions, managerial challenges and ethical questions. To discuss and analyze them, this paper focuses on a well-respected NGO in Argentina working with the very poor in the outskirts of Buenos Aires, called Fundación Sagrada Familia, later rebranded as Vivienda Digna (VD). Created in 1979 to work on social promotion and strengthening families, VD focused its work on facilitating access to decent housing. After 25 years of developing self-construction projects and microcredit programs for housing improvement, VD decided to launch a social business based on collecting and selling used materials and furniture to poor and non-poor families and built an operation which both contributed to the social mission (advancing decent housing for its clients) and generated financial surplus for the organization.

The case analyzed in this paper helps to understand the evolution of a social business carried out by a non-profit organization and the challenges faced to develop a sustainability business and

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operational model. It also illustrates how a non-profit organization can operate a successful social business applying in the process proven management approaches and techniques.

The organization

Created in 1979 by a group of people with ties to *Cáritas San Isidro*¹, a regional chapter of *Cáritas Argentina* (local affiliate of Catholic Charities),² VD was founded with a donation provided by a businessman in honor of his late wife. VD's mission was to contribute to individual advancement and family strengthening by creating programs that enable access to good housing conditions. With a business background, VD founders believed that housing promotion did not involve "giving anything away" but engaging the beneficiaries in their efforts to improve their living conditions through loan and payback mechanisms.

As many sources in VD marked, "Since inception, VD strove for efficiency to accomplish its mission... San Isidro's Diocese noticed that *Cáritas* had a hard time recovering costs, so donors decided to seek a more efficient approach that could only be attained with another organizational framework... The key was not to give fish to LIS groups but, rather, to teach them how to fish."

To fulfil its mission, VD initially developed three programs in the Northern Greater Buenos Aires area. The creation of these three programs each marked a milestone in VD's history. First, VD launched its *Esfuerzo Propio y Ayuda Mutua* (Self-Effort and Mutual Help, hereinafter EPAM) program, which, since 1981, enabled several families to build homes in new plots of land for the entire group (do-it-yourself building); once the houses have been built, a raffle takes place to allocate them to participating families. With EPAM, "VD intended to take families out of slums," explained one Board member. However, sizable amounts had to be raised to accomplish this goal. To continue pursuing its mission without going broke, VD decided to focus on LIS "with some means". As a result, *Lotes y Servicios* (Plots and Utilities) was launched. This program offered plots

¹ A city located in the northern suburbs in Buenos Aires metropolitan area: is characterized as a very unequal area, since is the place of the wealthiest families from Buenos Aires on one hand and several *villas miseria* (shantytown, slum quarters) on the other. *Caritas San Isidro* includes in its service territories in addition to the city that bears its name, the cities of San Fernando, Tigre and Vicente Lopez as well as some parts of the Delta region.

² A list of the VD founding partners can be found at <http://viviendadigna.org.ar/somos.php>, accessed on 12-05-2017.

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of land with basic utilities at low prices with affordable loans, leaving home construction up to each family with VD advice. This VD initiative “made it possible for people to have a home for a third of its value”. Later, in 1994, VD created its *Mejoras de Vivienda* (Home Improvement, hereinafter PROMEVI) program. Groups of families were granted a loan to build or renovate their homes. The entire group was held accountable for payments and could also get additional loans for staple appliances. With PROMEVI, over 1,500 families improved their homes, with financial support from upper middle-class gated communities which funded some of the projects. This was the most dynamic initiative until 2003.

Even though both in *Lotes y Servicios* and in PROMEVI, VD utilized microcredit mechanisms, it was only in its next program that the logic of the market was incorporated by the organization through the design and operation of an innovative initiative in the Argentine context. This program was *Sume Materiales*³ (SM) and its development and growth changed the whole social development organization. As some sources used to explain, the SM program was created to take advantage of new opportunities: people offered VD to donate materials, but the organization could not accommodate them. VD had potential donors, and, because of its work on other programs, it also knew about potential recipients. A Board member summarized it: “the need was there; the offering was there as well, and the only thing missing was an efficient link to bring them both together. The initial goal was not to drive revenues.” However, the creation of this channel was put off for many years, as it entailed a complicated logistics and operating scheme. Additionally, they faced some internal discussions about whether they should “start selling something to poor people, what with our original ties to *Cáritas*, to religion, to social aid for families” Finally, a confusing event led to launching the new program: a member mentioned to a *Caritas* reporter the idea of the program, and *Caritas* published it as an existing program, which led to people calling to the organization requesting more information.

In addition, other events triggered the development of this initiative. They decided to submit the idea to an Ashoka Competition. In the proposal preparation stage, it became increasingly clear that

³ For information on Sume Materiales program, go to: <http://viviendadigna.org.ar/sume.php> accessed on 11-03-2017.

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this program –if well managed- could generate profits that might support other VD projects. VD won the award and the funding to continue the planning process. Later, VD obtained a warehouse from the city government to use for the program as a lend premise at no cost. Six month later they submitted a proposal to a competition organized by one of the largest corporations in Argentina, which provided not only extra funding but also a team of professionals as volunteers to help to put the warehouse ready to use. Finally, in November 2003 VD started to operate the warehouse and received the first donation of materials from a construction company. After 25 years since VD foundation, its social business started operations.

Tensions in the process of creation a social business within a social development nonprofit organization

When a nonprofit organization with a funding model based on donations and subsidies decides to pursue a market driven initiative there some recurring tensions. The process of creating and consolidating a social business brings about questions in several dimensions such as business model development (donor market, client profile, product offering, pricing, etc.), and operations (value chain management, internal organization, etc.), organizational identity (moving from a social service model to a commercial model), and ethical dilemmas (how to assign donated furniture and building materials among low income clients and “regular clients”).

The transformative process can be best characterized as a trial-and-error experimented by the VD, learnings, challenges and coping mechanisms are highlighted: a linear success story is most unlikely.

The following section of the paper analyzed the transformational process in VD focusing on business model development, which special emphasis on changes in providers/donors, clients, value proposition, management practices and stakeholder management. Then the tensions around organizational identity are discussed.

Business and operational model

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In April 2004, the program started selling materials to the public, receiving construction material donations, sending outsourced trucks to pick up donations, putting the materials received in selling conditions, adding bar-codes to materials, and handling actual sales. As all products were tagged with a specific bar code, the program was able to guarantee donation “traceability” to donors.⁴

The first challenge hinged on ensuring a steady incoming donation flow. Initially they targeted building contractors as donors of their remaining materials but that target failed. This led the organization to find ways to advertise the program on mass media, succeeding to reach the public with a radio ad on 2005. As a result, the program started to receive private donations, but promoting private donations seemed like a poorly efficient strategy given the logistics involved. They decided to search for more efficient streams of donations and moved on to contact companies’ maintenance heads but came to realize that hotels would make a more attractive target, as they all renovated their premises. *SM* found a suitable donation niche in the hospitality business.

The program’s goal was to reach breakeven by 2006, and it did. *VD*’s advertising efforts in several media, aided by a favorable local economy, paid off. Still, getting more donations remained a challenge. *SM* program met its planned growth targets. In the middle of 2007, *La Nación* (one of Argentina’s leading newspapers) published an article on the program that was read by more people than usual because it was a holiday. The very next day, a news program on *Telefé* (a leading nationwide television network) broadcasted a note on the program as well. After the news program finished, *SM* “phones didn’t stop ringing for two weeks. We got as many calls from donors as from buyers...”. In 2007, program profits neared US\$ 23,300, with overall sales totaling almost US\$ 100,000⁵.

⁴ Donation traceability is a term used by Program officials to refer to the possibility that donors learn the destination of their donations using bar codes. This feature constitutes one of the main appeals in *SM* value proposition. See below.

⁵ As of US\$/\$ parity at December, 2007 (source: http://www.bcr.gov.ar/PublicacionesEstadisticas/Cotizaciones_por_fecha.asp, accessed on: 02-06-2018).

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Up to the end of 2006 most sales were made to middle class persons and not to the intended target of *SM*. To reverse this model, the decision was made to hire a priest who, back then, served at a church in a poor neighborhood in Boulogne, who started to build the program's social area. He publicized the program locally, to attract LIS customers, approaching and visiting schools, grassroots organizations, soup kitchens, etc. His dissemination work was supported with brochures and ads, but, mostly, the social area leader focused on field work to reach out to LIS prospects. As the social area leader, he determined who got a discount based on membership in one of three groups: a) people referenced by CSOs working in the field, b) VD social program beneficiaries, and c) individuals receiving "some sort of public social aid, as we figure these people have already been characterized as needy." Based on information obtained in interviews, three types of discounts could be applied and by 2009, 90% of program sales included a discount.

However, this change in the program's customer base brought some challenges as well for its financial sustainability. Those challenges came from both local and external factors. As for the local issues, in 2008 the federal government got into a conflict with the agriculture sector when it imposed a new tax on exports⁶. This conflict led to uncertainty in the local economy with affected *SM* financial results, mainly because of reduced donations and reduced payment capacity of LIS clients. At the same time, the worldwide financial crisis developed from the explosion of the subprime bubble in US⁷ had spillover effects in the Argentine national economy as well. As a result, a smaller demand impacted on the program's sales, and "red numbers" were observed in 2009. This setback was over sooner than expected, and by 2010 *SM* showed again a financial return for VD.

⁶This conflict started when the federal government introduced "Resolución N° 125", which imposed a surcharge tax on exports by cereal producers. The four main trade associations working with producers of different sizes joined forces for the first time in Argentine history to defeat this tax. After 129 days of conflicts which included strikes and lockouts, the government eliminated the tax.

http://www.lanacion.com.ar/nota.asp?nota_id=1031390, (access on 06-26-2009).

⁷<https://www.economist.com/news/schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-article> (accessed on 02-14-2018).

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SM showed a positive trend up in its financial results until 2017, when VD decided to move from their original warehouse. As a result, they had to make an investment to face this move that led to a short-term deficit. In this opportunity, VD decided to finance its deficit with cash reserve funds.

SM spent a lot of energy in the development of a balanced scorecard⁸ to monitor its key performance indicators. The most important indicators of the program are divided into four dimensions: social impact, economical sustainability, donations and logistics.

As for the social impact, it is observed an ever-increased positive trend in the number of new beneficiaries. Second, in the last two years, specially in 2017, there was a steep growth in the number of local leaders engaged in the program. It is also remarkable the fewer families visited between 2013 and 2016.

On the other hand, considering the economic sustainability, there was a deep increase between 2009 and 2013 in the net income of the program (measured in US dollars, it peaked from roughly US\$ 180,000 to US\$ 600,000); from 2013 on, net income remains more or less constant, in a context of a deep appreciation of the US dollar vis a vis the local currency (Argentine pesos).

Thirdly, considering the yearly revenues of the two workshops, they grew from almost US\$ 15,000 in 2009 to US\$ 85,000 four years later, and almost double the amount in 2017 (which meant almost US\$ 150,000). This seems to show a stronger diversification in SM sources of income, and an attempt to add additional value.

Finally, as for the donations to SM, 40% of them came from individual donors (“they give us variety”, mention the Executive Director), 30% of them was from businesses (giving them scale, as the latter emphasized), and a similar number derived from public sector organizations such as several agencies from Buenos Aires Autonomous City and Buenos Aires Province (see above).

Finally, 80% of its clients are LIS and most of them are beneficiaries.

⁸ Source: internal documents facilitated by VD. As this tool showed some changes over time, we’ve just compared the categories that appear as a constant.

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SM value proposition is directed to three target groups: clients, donors of construction leftovers to the program and donors to the VD. In all three cases, it rested firmly on VD's reputation and the pursuit of its mission.

When looking at donors two additional elements stand out: a) transparency in helping beneficiaries through the possibility to trace their donations with bar codes (donation traceability), and b) the opportunity to contribute to protect the environment by promoting material recycling. While donors did not explicitly complain about the program initial departure from VD mission when most of its sales were made to non-LIS buyers, we can infer that the program was forced to increase its "social" sales to avoid potential donor concerns (in addition to the argument put forth by VD Board about aligning the program to organizational mission). Complementarily, a former Executive Director characterized the program as a "gateway" for donors to reach VD, for it was "easier" for people to donate construction leftovers than money, and construction material donors could later become supporters for other VD programs. Therefore, part of the value proposition to donors was the possibility to contribute to poverty alleviation by donating material leftovers from construction or renovation projects.

Focusing on customers, analytically it may be convenient to isolate LIS clients from higher-income buyers. At first, the program did not offer a value proposition for LIS individuals, as no efforts were made to formulate a comprehensive communication strategy to address this group. The program's value proposition was expected to be self-evident for LIS groups, but in any case, it should be framed as follows: to have access to cheap housing materials. Yet, the case also reports that LIS customers only flocked to the program's depot when its value proposition addressed them specifically through the work of its social area. We might conclude that value proposition is not self-evident for intended beneficiaries. In a nutshell, the program's value proposition for LIS groups lies in the savings they get when they purchase discounted construction material.

However, over time, SM started to include other social activities directed to its beneficiaries and LIS in general (such as training courses on electricity, plumbing, etc., conducted on their premises by program' stakeholders related to the construction industry). Therefore, is easy to conclude that

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in the last years the value proposition to LIS clients started to address new dimensions such as job skill development and work inclusion. In addition, efforts to improve the value proposition to their customers were witnessed with both SM carpentry and blacksmith workshops that since 2009 are improving the quality of the donations. With this strategy, customers could have access not just merely to leftovers, but to objects with functional, aesthetic and economical value-added.

SM does not make efforts to communicate its value proposition for higher-income buyers, but it was always clear to this customer segment that their purchases at the depot contributed to advance VD's mission by generating income for its programs.

Another way to reflect on the value proposition is to look at impact that SM brings about for each of its main stakeholders. The multidimensional impact of the program can be decomposed. First, in the economic realm, LIS clients of the program have gained a bigger purchasing power, by accessing to cheaper (or free) construction goods. Additionally, there is an impact on those LIS capabilities, by having the chance to attend to training programs on several skills related to building activities. Moreover, there is an environmental impact, giving the fact that Sume's business model promotes reutilization of unused or replaced building materials -which also benefit donors of the program, who solve the problem of discarding these materials. The positive impact on social investment or CSR strategies of companies that articulate with SM becomes, additionally, a reputational positive aspect to them. Something similar can be found when agencies in the public sector collaborate with VD: they solve the issue of discarding or removing materials and gain positive reputation among their employees and the community.

SM team evolved from 2 people in its beginning to a structure of 27 people in 2017. Analyzing SM internal documents, it is observed that until 2009 almost all the program structure depended upon the general coordinator. In turn, as SM evolved, an increased division of labor, and the clarification of duties and responsibilities were developed. For the near future, as SM expands and open new centers o sites, they expected to create a structure with a coordinator for every warehouse, a social worker, a person responsible of logistics, and for every workshop (blacksmith, carpentry, etc.).

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As in many inclusive social enterprises, a tension experimented by VD and SM was related to its human resources practices. Initially, VD envisioned SM to become an inclusive initiative in the broad sense of the term, as LIS were not only to be the main customers of SM, but also because employees were also expected to belong to the same income group. At first, the Program tried to recruit employees from LIS sectors, usually suffering severe poverty, drug addiction or violence issues. The Executive Director elaborated on how challenging this attempt proved in the first years at SM,

In all honesty, this approach poses an operating challenge because of human resources' social background. Some of the kids who work here come with a history of deprivation and addiction. They were employed by the program as part of its social advancement purpose. Some of them have made significant progress, successfully taking on new responsibilities, but that is not always the case.

After a period of experimentation, they concluded that the focus of the SM should not be on inclusive employment and they decided to search for the most qualified person for each position regardless of its social background.

As of 2018, HR management of the 27 employees working at SM was still a topic that required a lot of attention and generated internal discussions. There were some profile differences between those working at the headquarters of VD or some middle management at SM (coordinators, etc.), usually professionals with a social drive who had decided to incur in some opportunity costs working at an CSO, and those who works at the warehouse. As the Executive Director mention, the latter have no choice, "working at Sume is just a work for them".

The general notion regarding HR processes at SM is the one of a small enterprise with a concern to increase its professionalization. To manage this dimension of SM operations, a Coordinator of Human Resources was incorporated at the program in 2012.

Since 2014, VD has a strategic plan that serve as a long-term guide to the whole institution and its programs, among them SM. The strategic plan covers the whole Foundation, despite the

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differences among the areas and programs. There is a commission with the mission to follow the advancements of the plan implementation.

The strategic plan entailed the idea of imagining VD direction until 2020 in 2014 but divided in two stages: 2014-2017 and then 2017-2020. Among the different ideas that were considered in the second planning exercise, they included opening four *SM* sites, and to outsource the calling center and later the materials collecting service to simplify the logistics. In the first part of 2018 they were starting a third process to look at the plans for 2021-2025.

The strategic planning process was horizontally conducted with a participatory approach, and with an eye on how to manage the cultural dimension to better integrate the people and to promote consistency at the time of making decisions. They worked with a consultant, that helped in designing the process and using the tool [the strategic plan] and on how to communicate it and keep it alive in the organization. The staff and board gather once a year on an institutional meeting and the executive director presents the implementation progress.

The strategic plan is divided in three areas: the social impact sought, the programs by which VD assumes they will reach the social impact and the resources needed to run those programs. Every goal of that plan has a target, an indicator and a responsible of that indicator, and the plan of action to get to that target by 2020. According to this plan, the goal to *SM* is to have four more warehouses (replicating the actual) and 30,000 beneficiaries.

As of 2017, besides the three programs (*SM*, Microcredit and Home Construction), VD had three support areas at VD: Institutional Development (which covered communications and fund raising), Administration and Human Resources. Every area had a commission which includes a coordinator, one member of the Board and volunteers with expertise on that topic. If some critical decision exceeded the scope for that area, the commission and VD Executive Director analyzed the topic and then took the issue to the Board, which in turn made the final decision.

The following table summarizes the different component of *SM* business model in its evolution.

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Table 1: SM program's business model –salient features and evolution

Variable/Period	Early stages (2004-2008)	Maturation (2008-2014 approx.)	Strategic Growth (2014-2020)
Suppliers	Construction companies→private donors→hospitality industry & private donors		Individuals-private and public donors
	Emerging strategy		More planning and follow-up of donors
Customers	80% higher-income buyers →tension & Board concern (few LIS)→social area	80% LIS customers Low and high-income buyers coexisting at the same depot(s)	
	“Carefully planned” or emerging strategy?		More planning and follow-up of LIS customers (beneficiaries) Training courses to beneficiaries
Revenues	Operating at a loss + higher-income customers→ more revenues	More LIS customers/changed setting →lower revenues	Lower (due to replication and new venues)
Structure	Indistinct	Growth tensions	Increased division of labor (e.g., specialization of social and HR area)
		Social area at forefront	Replication of structure in its second venue
HR	Everyone does everything Social orientation	More task assignment Some jobs with high turnover Social orientation or gradual professionalization? Problems with ISO standard application	More specialization Turnover at Program Coordinator level Less commitment with SE mission at blue collar level
Management processes	Growing more complex (more measurements included in Scorecard)		Increasingly planned (via Strategic Plan)
	Focus on process control and streamlining		
External communications	VD members' informal networking →first radio spot <i>Expovivienda</i> trade show		Formal (housing forums) and informal (Vistage) networking Social Networks (own YouTube channel, etc.) Good relationship with media and local authorities

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	Article on <i>La Nación</i> -> peaking sales and donations No dedicated internal area		Increased systematization
Pricing	No discounts	Discounts to LIS customers → price/ discount differentiation What should be done?	Discounts to LIS customers → price/ discount differentiation
Stakeholders	Funders CSO as referrals Local Government	CSO, Universities Media Public Agencies	Multiple

Stakeholder Relationships

To understand SM business model is key to analyze the relationship with stakeholders as a distinct and critical aspect of a social business.

The most relevant actors for the program's business model are suppliers, customers, public agencies, other CSOs and the media. Building and managing relationships with these stakeholders were instrumental for program sustainability.

Program suppliers are key. For the most part, this group includes private donors, business companies and construction professionals. Initially, as noted before, most donations came from individuals and construction professionals or companies. VD's reputation should be highlighted as a key driver for forging relationships with suppliers. As explained by one of the board members "As we built our track record, we found it easier to get donations. Let's not forget SM is part of VD, and, by the time the program was launched, VD had been around for 20 years".

Building a relationship with donors was crucial, not only for the program itself but also for VD: this program gave visibility to all other VD programs and it served as a gateway for prospect donors, because it is very marketable it is easier to contribute construction material leftovers than to donate cash. Once people get to know the organization through SM, they may choose to support VD as financial donors. Hospitality industry donors should also be mentioned, as approaching

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them shows how the program took advantage of a setting that favored that industry. The contribution from construction industry donors and other private companies should also be considered, although they proved not to be successful as those from the hospitality industry.

The articulation with their private sector providers tended to be both formal and based upon trust. The social dimension of VD mixed the professional approach showed by the organization (and the traceability was a symbolic example of that). Of course, the formalization of the link also depends on how each partner of Sume tended to articulate with their stakeholders. In its structure, SM had a staff person whose task was to look for new partners, and other who focused on retaining providers.

Additionally, VD and SM had the support of some lawyers' firms specialized in land title regularization which was critical for beneficiaries, and labor relations which was important for SM management.

The media, press agencies, and the advertisement industry, also play a key role in program development, with radio spots, street signs, involvement in construction trade shows, news articles all serving to disseminate the program's work and helping it build its inventory. It should also be noted that VD's networking with media stakeholders, including radio stations and press media, played an instrumental role in the program's start-up stage, as illustrated by the free broadcast of a radio spot or the contacts with construction industry print media, like *Vivienda* magazine.

Building a relationship with intended client suppliers and referrals was a critical element in the business model, given that LIS customers largely came to the program because of efforts deployed by its social area to approach community based organizations, local churches, etc. Clearly, VD's reputation and the parish work formerly carried out by the program's social area head in poor areas both contributed to enhance the initiative's impact.

Indeed, another relevant element hinged on the relationships forged with support organizations and other CSOs. In addition to the ties to grassroots organizations, is needed to mention the role played by institutions like Ashoka and YPF Foundation during the program's start up process,

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providing it with financial support, materials, professional skills, competencies, information, social networks, communicational impact and legitimacy –both in the private and the so-called “third” sectors.

As for the CSOs and intermediate associations VD and SM showed several relevant links which contribute to its legitimacy, such as HELP Argentina (a nonprofit that seek to promote foreign social investment in our country), RACI (a federation of non-profits that seek to strength the Argentine Third Sector by linking it with international and local actors who promotes social investment), C aritas (social organization of the Argentine Catholic Church). Finally, they work with *Barrios en red* (Neighborhood in network) is a network of community organizations located in the area they operate.

On the other hand, SM has relationships with professional and business trade organizations such as: *Sociedad Central de Arquitectos*, *Consejo Profesional de Arquitectura y Urbanismo* (both related to architects), *C mara Argentina de la Construcci n*, *C mara de Empresas de Desarrolladores Urban sticos* (both related to building and developers’ firms), and *C mara de Hoteles* (hospitality industry).

In the public sector, the most relevant actor at the beginning of their operation was San Isidro’s local administration, as the program built strong ties with local public officials based on the long-standing relationship that linked VD to San Isidro’s City Hall. The local administration supported the program by providing a locale for its operations. The case also illustrates the growing engagement of other public agencies, both at provincial and national levels. In general terms the relationship of the organization with the public sector tended to be fruitful. SM had other important relationships with official agencies at local, provincial or national levels, addressing housing, infrastructure, land title, social development, among other public issues⁹. In this sense, is worth to mention an agreement with the *Agencia de Protecci n Ambiental* (Environmental Protection

⁹ Just to mention the formal agreements with: *Subsecretar a de Vivienda de la Naci n* (Housing Department, national level), *Subsecretar a de Tierra y H bitat de la Provincia de Buenos Aires* (Land and Habitat, provincial level), *Ministerio de Desarrollo Social de la Naci n* (Social Development Department, federal government), *Ministerio de Infraestructura y Transporte de la Ciudad de Buenos Aires* (Infrastructure and Transport, local level), and *ONABE/ABE* (because of the land title of their warehouse in Boulogne).

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Agency) of Buenos Aires Autonomous City. The agency leaders valued the management and report systems of VD (its donor data base and the traceability procedures) and they signed an agreement to let SM pick up materials left by people which could not managed by general residential waste management services. Additionally, this public agency gave SM a subsidy to buy the truck to pick up the materials. In sum, this arrangement worked like an outsourcing mechanism of the final disposition of local construction wastes and in this regard, SM contributed to reduce waste and its negative environmental impact.

On the other hand, as for the educational sector, the program and VD had relationships with two private universities located in the northern Buenos Aires: Universidad de San Andrés and IAE Business School, where some of the management team obtained their education, and which provided advice through faculty relationships built and through service learning projects developed by students. Complementarily, Vivienda Digna and SM developed also a productive support relationship with a support organization called Aportes¹⁰. With the support of Aportes they conducted a strategic planning process for the 2014-2017 period and received additional support to elaborate the plan for 2017-2020.

Some of the distinct features of SM *vis a vis* other Argentine social enterprises such as its focus on professionalization and the commitment to best managerial practices applied to CSO (e.g., strategic plans, traceability, scorecard, etc.) were developed working and collaborating with other stakeholders.

Organizational identity

As explained, even though VD came to the idea of the social business around the year 2001, it took some time until the organization decided to move ahead. They recognized the opportunity, but the creation of this channel was put off for many years, as it entailed a complicated logistics and

¹⁰<http://aportesdegestion.org.ar/quienes-somos/> (accessed on 10-23-18). This is a support service organization created by former executives from local corporations who volunteer their time providing technical assistance and consulting to nonprofits around management issues.

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operating scheme. “Additionally, it wasn’t easy to start selling something, what with our original ties to *Cáritas*, to religion, to social aid –especially social- for families”, explained a Board member.

The organizations went through different stages to assimilate this new program model and the experimentation that went on until consolidating the initiative created organizational identity discussions.

As explained, initially some members expressed doubts about an organization selling to the poor and whether this fit in with VD’s mission. The members recognized that VD mission was not home building or housing promotion. Instead it focused on individual and family advancement. So, a project that involved VD merely as a commercial channel raised some issues because it wasn’t entirely clear if recipients were improving their living conditions. Then, two issues emerged: first, this project fitted VD’s mission because fostering donations was indeed a way to contribute to donor advancement, as people would start thinking that their leftovers could be useful for someone else. Second, this project would help recipients improve their homes for their families. This internal reflective process created a new rationale to the initiative and helped to redefine VD identity.

However, as *SM* evolved additional questions arose that led to new tensions on organizational identity. The main one related to the intended versus the real profile of their clients.

On this issue, it may be useful to point out that the case shows diverging views. Some source conveyed the idea that, at first, the program focused on higher-income customers to strengthen its financial results, in the understanding that LIS customers “will come in due time.” Other program officials harbored some concerns and suggested that the strategy was more emerging.

It should be noted that higher-income buyers visited the program’s depot because of “word of mouth” references and their knowledge of VD’s work. In addition, the publicity obtained generated interest in middle class customers looking for materials at a discount price. As a result, only 9% of the clients were LIS and therefore, the program was not reaching its targeted client base. This situation led a new identity discussion which resulted in the decision to make special

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efforts to focus on expanding its portfolio of LIS customers purchasing construction materials at discount prices, by mid-2006.

As explained, during the program's start-up stage, SM focused on building stock. So, they advertised to get donations, and at first, the sales ads were not meant to focus on discounts. Instead they focused on attracting donations. As a result, LIS buyers did not come as much. The Board picked up on that and argued that, "while our regular-price sales are up, we have few social sales." Most of the sales were at regular prices, and part of the Board was not satisfied because "we are not fulfilling our mission," which was their concern before they launched the program. This internal discussion led to reaffirm the focus on LIS clients which in turn trigger structural, staff, pricing and stakeholder management changes.

Another example of the organizational identity dilemmas is perhaps specific of this case but reflects the tensions around introducing managerial business practices in a nonprofit organization. Early on SM coordinator initiated the process to prepare for an ISO 9000 certification. This attempt, however positive in terms of starting mapping processes, wasn't possible to be fully functional due in part to some resistance of members at the VD Board, who mentioned that to continue and to develop this fully-fledged standardization would be very expensive and time consuming and would distract SM from its main purpose. The tension in that discussion was whether SM should operate as a professional business in terms of practices or whether they are compatible with a social mission. A key driver for SM program evolution was its consistent focus, since inception, on quality assurance as a pillar of its management model. In turn, this approach brought specific challenges that made choices more complex, as "some found it quite hard to use the words mission and standardization in the same sentence," as the Executive Director noted. A former program coordinator recalled, "I remember that, when I arrived as volunteer in 2007, before joining the program on a full-time basis, I came to help with the ISO 9001:2000 standards the first program coordinator wanted to push forward."

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Finally, the ISO certification preparation was dropped by 2010, but, as it left a more accurate map of the processes, created the capacities to work in a Balanced Scoreboard¹¹, to record the most sensitive program management issues that required monitoring. In this case, SM leadership understood from the outset that setting up operations was a challenge, which requires to manage strategies for personnel administration, marketing, management control, and information that was needed for the program to be self-sustained.

The other organizational dilemma which is frequent is whether to keep the social business isolated from the rest of the nonprofit structure to protect either the initiative or the other programs and operations, or on the contrary to integrate it in some way. The program was born with a split approval of the Board (6 to 3 votes in an organization which was used to consensus decision making), because some members thought that SM was meant to be a commercial operation to gather and resell housing leftovers. But overtime, more social value and professionalization were added (follow up of the conditions of their beneficiaries, training courses, help in land title ownership, etc.). Thus, SM gradually became not only a place to buy materials but also an initiative with greater social value added that clearly contributed to VD mission. In this case, as the Executive Director mentioned, “in our beginnings there were doubts about whether SM shared the social mission of VD. But it was never called into question our management style, on the contrary, it was celebrated by the Board. To show that we manage SM professionally is something that make us proud. When I left the program to take over the position of executive director of VD the professionalization approach was expanded to the whole organization. My point was to demonstrate that a social enterprise can be led professionally. The whole team own now that concept”.

So, the frequent dilemma between isolation and integration was solved in the case of SM and VD towards a process of organizational learning and integration as part of an explicit strategy. The impact of SM program on the rest of the organization was profound and multidimensional: most areas of the whole Foundation started to apply some of the practices introduced by SM: managing

¹¹ See below.

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by objectives, budgeting, mapping processes, measuring results, improving the communication with the stakeholders, in sum there was a spillover effect of standardization and professionalization of the whole organization managerial practices.

A further example of this organizational change was that after 10 years, the once unconvinced Board approved unanimously a strategic plan in 2014 (currently in its stage II of implementation): this was not just a green light for SM to look for four more warehouses by 2020, but, among other things, a proof of the commitment on a shared view on scaling up and to continue with the management approach followed. The way in which other areas at VD started to use those techniques also showed the contagious effect that SM professional practices had in other sectors at VD. Finally, the way the program runs its management via metrics, indicators, etc., called the attention of the media and its corporate donors building a positive reputation for the entire organization.

Discussion and preliminary conclusions

The organizational aspects of the case under analysis are not completely original. As Santos et al (2015) indicate “While social business hybrid models can be traced back to the 19th century, with legal forms such as cooperatives or mutual companies... they have grown in number and visibility in the last decades due to the blurring of boundaries between social and commercial sectors...” (p. 37). However, their growth and the increase in the competitiveness of markets made the management of social business even more complex.

To try to grasp the complexity of the phenomenon, Santos et al (2015, p. 45) developed a typology of social business hybrids presented in the next table. SM is hard to be categorized: to some extent it shows elements of a market hybrid business model, especially after 2007 when SM achieved its intended focus on LIS. However, it also shows elements of a coupling hybrid business model in the sense that donors of materials need to be treated as clients as well whose needs ought to be attended and satisfied along those of the clients/beneficiaries. In both cases, at least in cases

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studied elsewhere in Iberoamerica, financial sustainability is hard to achieve which leads and reflects social business fragility and this experience may depart from what they conclude regarding market hybrid business models. In any case they also conclude that “although they bear clear promises, social business hybrids are also fragile organizations that walk a fine line between achieving their social mission and living up to the discipline of the market” (p. 38).

TABLE I. A Typology of Social Business Hybrids

Dimensions	Clients = Beneficiaries	Clients ≠ Beneficiaries
Automatic Value Spillovers	<p>MARKET HYBRID <i>Examples: BOP initiatives for access to basic services (energy, health)</i></p> <p>Risk of Mission Drift: Low</p> <p>Financial Sustainability: Easy</p>	<p>BRIDGING HYBRID <i>Examples: integrated business mode with job matching for people with disabilities</i></p> <p>Risk of Mission Drift: Intermediate (lower risk for more integrated models)</p> <p>Financial Sustainability: Moderately Difficult</p>
Contingent Value Spillovers	<p>BLENDING HYBRID <i>Examples: Microfinance, integration models that require regular support or change of behavior for value to be created</i></p> <p>Risk of Mission Drift: Intermediate</p> <p>Financial Sustainability: Moderately Difficult</p>	<p>COUPLING HYBRID <i>Example: Work integration social enterprises that require a dual value chain that serves both clients and beneficiaries</i></p> <p>Risk of Mission Drift: High</p> <p>Financial Sustainability: Difficult</p>

Battilana & Lee (2014: 409) summarize the intrinsically difficult strains faced by these organizations: “tensions between the business and charity forms manifest both externally, in managing relations with a bifurcated organizational environment, and internally, in managing organizational identity, resource allocation and decision-making”. Thus, in this sense, and whatever the organizational label used to embrace the case under analysis, is needed to consider, “how hybrid organizations can manage these tensions, and thereby combine multiple forms sustainably” (Battilana & Lee 2014: 398). VD and its market-based initiative SM illustrate how a nonprofit organization that at some point in its development engaged in a social business can successfully address some of these challenges.

Hockerts (2015) points out to the fact that hybrid organizations often mobilize that remain marginalized and underutilized, based on assets that their social mission compels them to work with. He argues that “In order to deal with this tension between social mission and economic realities, hybrids have been forced to adjust their mental models, allowing them to see antagonistic assets in a different light. Hybrids have developed several cognitive strategies to identify opportunities that might turn antagonisms into complementarities” (Hockerts 2015: 92). SM illustrates how the organization created value out of waste materials and managed the dilemma of targeting more profitable clients versus low income clients finding a balance over time.

Another element that Hockerts recognized as a key operational strategy is clearly illustrated by SM. As for the operational side, one way to deal with the tension between social mission and financial sustainability is labelled as frugal innovation: “Frugal innovation skills, for example, may turn out to be diametrically opposed to the way businesses do research and development. Firms trying to engage in such practices on their own may experience internal friction. Spatial separation of antagonistic assets can be a good way of dealing with tensions” (2015, p.101). The same can be argued for nonprofit organizations developing a social business within the program portfolio. Spatial separation and frugal innovation, at least until the new and disruptive model become stable, are crucial approaches to manage change and scarce resources.

To make sense of the particularities and the societal impact of SM is it necessary to understand the local context, “as local norms and legal regimes vary in their receptiveness to the combination of business and charity” (Battilana & Lee 2014: 426). Thus, the socio-economical context under which this venture works is an important variable to consider. SM and VD seemed to have developed the key capacities suggested by Gupta et al (2015): comprehension, creation, connection, capability building and education and trust”. Comprehension as “understanding of both the macro and the micro-environment” was critical for SM in adapting to changes in economic trends. Its previous experience working in the community in other social development programs contributed to VD

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understanding of its context. SM was able to create innovations across products and services, markets, and distribution channels and supporting infrastructure. Connections or stakeholder management showed to be central to SM business model. Education of potential donors and of clients/beneficiaries contributed to enlarge the social impact of the initiative. Last, trust and reputation building were at the center of SM management practices (traceability, accountability and key indicator management). Gupta et al conclude that, “trust is both an outcome of successfully implementing the four capabilities described above, and a necessary condition for achieving success in implementing those capabilities” (2015: 106).

Battilana & Lee (2014) emphasize another challenge of hybrid social businesses that was specially managed by SM: “among the most prominent challenges is the measurement of performance in not only economic, but also in social, terms”. And the case under analysis is a clear example that such a preoccupation is valid not only in the research agenda but also in the practitioner one, since the measurement of performance has been a central element of SM management approach that contribute to its internal performance, to its social impact and to its reputation management.

Finally, business model development cannot be underestimated. Haigh et al (2015) stress that “the ability of hybrid entrepreneurs to develop innovative business models and strategies that balance the risk of mission drift with the risk of financial insolvency is vital” (p. 9). In the same vein, but taking special note of the local environment where the case is located -Iberoamerica- we argued, based on previous research findings (Berger & Blugerman 2010), that to achieve their goals, ventures such as the one under study faces several managerial challenges: formulating sustainable business models that fit social mission; seeking an adequate scale for ventures; building smart, creative and pragmatic alliances and have a “sound leadership based on a clear vision of the value of market-based approaches to organizational sustainability” (p. 105). Those challenges were successfully faced by Vivienda Digna Program.

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Exhibit 1: Evolution of key indicators in the first years of operation¹²

	Sale Revenues (in AR\$)	Costs (in AR\$)			Gross Results (in AR\$)	Subsidized Sales/Total Sales
		Fixed	Variables	Total		
2004	37.852	61.192	35.217	96.409	-58.577	0%
2005	65.499	43.404	50.441	93.845	-28.346	9%
2006	146.494	42.133	81.396	123.529	22.965	62%
2007	314.445	116.962	123.865	240.827	73.618	88%
2008	652.866	152.090	516.196	668.286	-15.420	91%

	In-kind Donations (in AR\$ al 100%)	Donors		
		Businesses	Individuals	Independent professionals
2004	80.537	31%	59%	10%
2005	346.560	37%	46%	17%
2006	379.166	21%	75%	4%
2007	632.742	13%	79%	8%
2008	1.201.970	8%	88%	4%

	Clients			Personnel		
	Subsidized	Regular	Total	Paid	Volunteer	Total
2004	46	413	459	3	12	15
2005	184	343	527	4	10	14
2006	402	857	1.259	6	9	15
2007	1.413	868	2.281	12	17	29
2008	3.691	993	4.684	18	27	45

¹² Source: Internal information provided by Sume Materiales Officers.

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Exhibit 2: Balance Score Card 2009-2017¹³

	2009	2013	2014	2016	2017
Social impact					
N° of new beneficiaries	N/D	144	1212	1056	1608
N° of new neighbourhood leaders engaged	0	0	4	22	120
N° of families visited	225	3	18	12	240
N° of CSOs	140	6	18	12	48
Economic sustainability					
Net income (\$)	674712	3678235	4697259	9165237	11325355
Net income (US\$)	177556	564146	549387	576793	607258
Expenses (\$)	731343	3205171	4078238	8425259	12944608
Expenses (US\$)	192459	491591	476987	530224	694081
Net income (\$)	-56631	473064	619021	739978	-1619252
Net income (US\$)	-14903	72556	72400	46569	-86823
Donation management					
Total inputs	N/D	397	2416	2440	4257
Productivity					
Blacksmith workshop revenues (\$)	37253	259600	478858	N/D	N/D
Carpentry workshop revenues (\$)	19522	296540	395909	N/D	N/D
Total workshop revenues (\$)	56775	556140	874767	1586136	2710735
Total workshop revenues (US\$)	14941	85298	102312	99820	145348
Rate \$/US\$ (as of 12/31-closing date of Sume Balanced scorecard)	3,8	6,52	8,55	15,89	18,65

¹³ Source: Internal information provided by Sume Materiales Officers.

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