Networks Help Social Ventures Thrive in Emerging Economies

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In more advanced economies around the world, entrepreneurs can count on a network of established institutions that help them launch and grow a business: local and regional governments, professionally run businesses that can supply raw materials or distribute finished products, universities and other players. But in many parts of the world with emerging economies, these institutions are weak or non-existent, and personal relationships are the coin of the realm.

Social entrepreneurs who yearn to be successful in these settings face challenges in establishing legitimacy and scaling up, even when that growth means more benefits flow to more people in the community. For example, local customs may make it perfectly OK for politicians, middlemen and friends who have not contributed to the business to demand benefits from it.

Our research into six agri-enterprises in Kenya, all social ventures, showed that the successful entrepreneurs know how to orchestrate the right social networks when they launch the business and as they scale it. They form mutually beneficial relationships with the right people and organizations at the start; engage new partners to expand the venture; and diplomatically fend off or disengage middlemen and others who want something for nothing. Ultimately, they transform the venture into an "ecosystem" that encourages everyone within it to support one another and share in its growth and wealth.

The strategies used by these successful enterprises can be useful to other entrepreneurs launching social ventures in emerging economies. They might also help larger companies and non-government organizations seeking to establish footholds in emerging parts of the world; governments hoping to spur economic development; or anyone hoping to launch a venture in a place where people are mistrustful of outsiders.

Our Research

Many researchers have studied how social entrepreneurs establish legitimacy in a region where they are not known, but many of these studies assume that a strong structure is already in place: established networks of government agencies, charitable organizations, investors or other vetted parties that can partner with the entrepreneur. However, in many parts of Sub-Saharan Africa, where our study took place, formal institutions are often weak and personal networks often serve as a substitute. These networks often carry social obligations, such as payoffs to "middlemen," unproductive family members of employees, and others who don't contribute to the business. We focused on Kenya's farming sector because about two-thirds of Kenyans depend on this sector as consumers, producers, entrepreneurs and employees, and a successful farming venture can lift their fortunes.

We studied six entrepreneur-led agri-ventures from 2010 through 2021, and conducted 64 in-depth interviews with key players in those ventures. All ventures were set up to support farmers' productivity: for example, by providing high-yield organic fertilizer or informational resources. Their founders or CEOs had similar educations and skill levels, and no access to resources from a holding company or other organization with deep pockets. They all were operating in impoverished communities and faced similar challenges with weather and low profit margins. We also reviewed publicly available information and interviewed outside experts from impact funds, a social enterprise network, a local university and a recognized charity. We worked closely with Kenyan colleagues at Strathmore Business School and the University of Nairobi, and immersed ourselves in the context for extended periods of time.

Two of the six agri-ventures enjoyed success at every stage of growth; two had setbacks that they eventually overcame; and two failed. The four agri-ventures that survived were able to raise the household income of at least 100 farmers in their communities by at least 10 percent, which confirms their success as social ventures.

What Successful Social Ventures Did

All six agri-ventures started off well: They were able to identify a core social problem, a possible solution and the people who could benefit from it. They also leaned on a network of ties that they had developed before the venture, including research institutes, close friends and family members, to better understand the target market and to help them gain the knowledge and resources they needed to launch. Slowly they overcame initial distrust in their communities and were able to start off small.

Once established, the six ventures faced the challenge of scaling up. The four successful ventures did several things well. They expanded into new and unknown regions in a way that respected local language, customs and needs. They forged new partnerships with both local and international organizations that could help them gain resources and knowledge. Along the way, they avoided getting too embedded with the wrong people and disentangled themselves from relationships that no longer worked. Eventually, the enterprises became the center of an ecosystem where individuals and organizations work together for mutual benefit.

Building Legitimacy in New Markets

The successful ventures, once they established legitimacy and built trust with people in their community, reached out to other communities and non-governmental organizations across a wider geographic area. Since the ventures were already proven entities that were making money, it was easier for them to get the attention of local incubators and international organizations that could give them additional funding, advice and legitimacy. Established ventures also were able to collaborate with local universities, which provided knowledge and student interns.

Tapping Influential Local Leaders

The enterprises that grew successfully also realized that having local leadership helped them build trust and get buy-in from the community. One American-born CEO of a venture that went through a tumultuous period said he felt “like a bystander” at local ribbon cuttings. Another venture’s fortunes turned around after they handed over more control to locals, which enabled them to become more “positively” embedded in the community. “People need to hear from their friends that we are reliable,” said one founder.

These local managers made it easier for enterprises to introduce themselves to new markets. The local managers knew which partnerships and individuals could help the business expand, which language to use in the new community, and whom to avoid. They gained influence and trust by making public commitments to the new community about how and when their lives will improve through letting the business settle there. They also charmed influential political leaders by showing them how the company’s goals aligned with theirs and by making them look good. For example, they let the local politicians make the announcements about the company’s initiatives that would improve the wealth of their communities.

Avoiding the Middleman

Because communicating with many hundreds of farmers was impossible, the ventures also had to deal with “middlemen” who insisted on being part of the business even though they added no value. The entrepreneurs discovered that working through trusted cooperatives gave them the same access without the headaches. Others, including family members of founders and employees, also tried to carve out some benefits for themselves. The successful ventures avoided the pitfalls of these relationships but helped them find other opportunities for making money.

From Business to Ecosystem

Finally, in a part of the world where strong institutions are rare, the successful ventures ultimately became institutions themselves. Building on their newfound respect from locals, they became more than a business and instead positioned themselves as an ecosystem of stakeholders – farmers, suppliers, universities, local government officials and others. The ecosystems became a source of information and resources and “enabled” the individuals and organizations under their big umbrella to learn from one another and help one another.

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Takeaways

Here are some things that other social entrepreneurs, big companies and government organizations can learn from our research:

- Unlike large non-governmental organizations (NGOs), young social ventures not only have to bridge into the respective social context, but also need to overcome their liability of newness. Creative ways to do that – and to build the necessary trust and legitimacy in the process – include having local representatives and partners make frequent public commitments in front of local villagers, and then delivering on them.
- Companies can dis-embed from local unproductive ties while still creating value for them -- for example, by involving effective family members in the organization, based on merit, while creating opportunities for ineffective family members outside the venture (in an accountability structure), thus avoiding nepotism.
- There are creative ways for entrepreneurs to say "no" to favors, for example, by integrating people who had asked for handouts into their value chain instead of giving them handouts.
- Enterprises can support the creation of new markets, for example, by facilitating deals with crowdsourcing platforms that fund farmers.
- Developing a strong ecosystem requires the (re-) alignment of incentives between a company's objectives and the interests of key stakeholders such as farmers and cooperatives. Creative approaches might include layering products on top of international organizations' value chains, thus helping them scale while enabling their international partners to increase their local legitimacy and local reputation.
- Supporting sustainable income streams for customers (here: farmers) can be effective and create loyalty. These might include guaranteed purchase of products, price guarantees, or providing lifelong assets.

Explore the Research

Align or perish: Social enterprise network orchestration in Sub-Saharan Africa (https://www.sciencedirect.com/science/article/pii/S0883902621000975) , Journal of Business Venturing, March 2022.

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