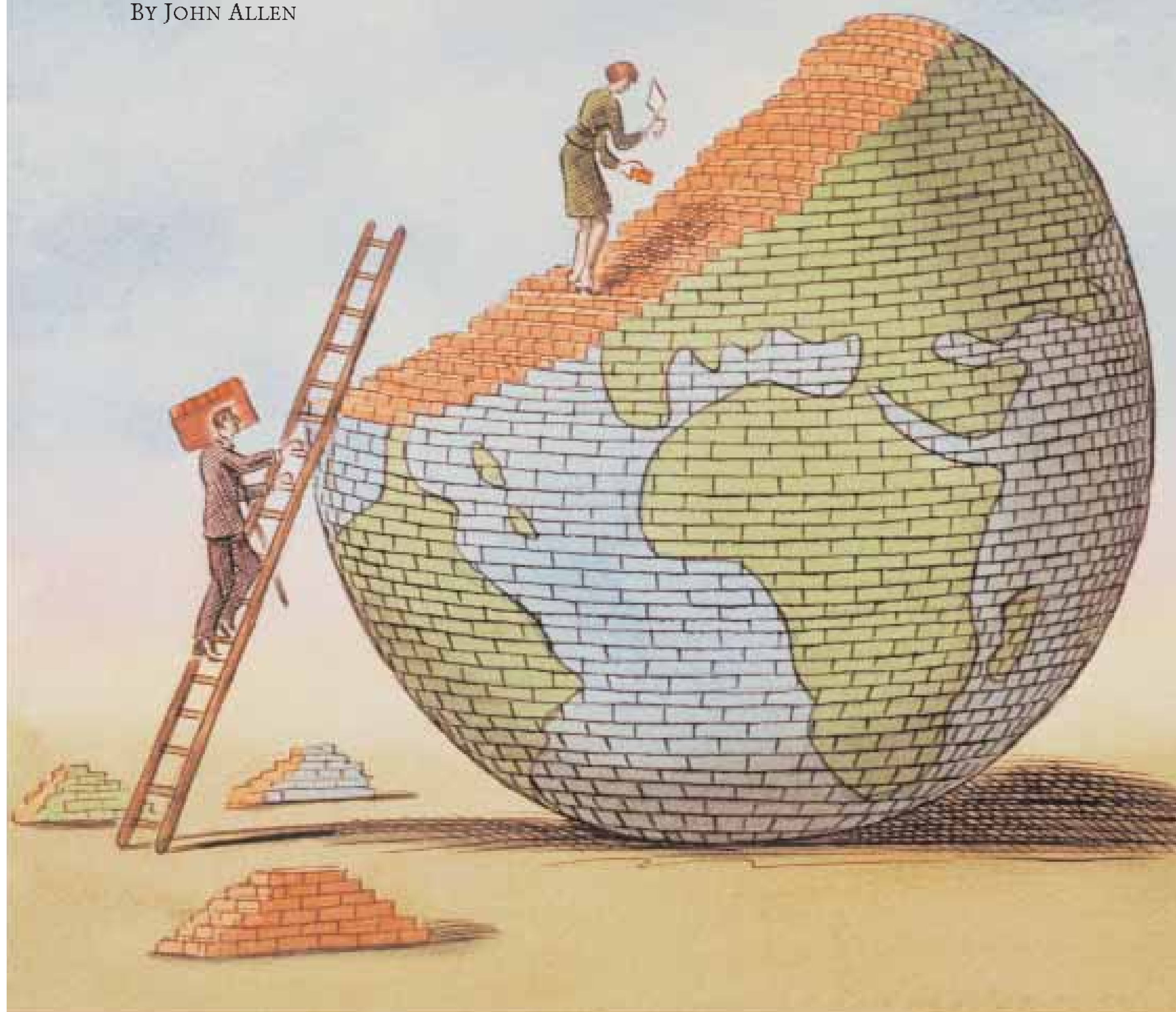
Building a Better Business

Following the ways of capitalism, social entrepreneurs use market forces to improve the human condition.

By John Allen

THE IMAGE BANK/PETER TILL



IT'S NOT HARD TO FIND people in Madison who talk about changing the world. Stand out on Library Mall any afternoon when the weather is fine, or eavesdrop on a conversation in one of the many coffeehouses — you're likely to hear plans for ending poverty, war, hunger, and persecution of all kinds.

But it takes more than talk to change society. It also takes a hard-headed plan — and maybe a market assessment and a financial analysis.

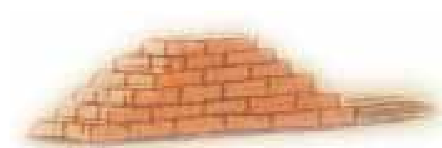
That, at least, is the lesson the UW's School of Business is teaching. Through a new course called Social Entrepreneurship, the school is showing students that capitalism can create social change, as long as its practitioners strive to create social value rather than wealth.

A product of that class, Heather Hilleren MBA'05 is one of those who talks about changing the world. On a stifling summer day, she holds forth in the EVP coffee shop off of Old University Avenue, near the west end of campus. Her scheme is all about food. America, she feels, is fed on a diet that's too corporate, too industrialized. If people want to be healthier, they need to eat more locally grown produce, which is fresher and, she reasons, better for them. "I think everyone deserves the opportunity to eat fresh, nutritious food, wherever they are," she says.

Further, she maintains, if people eat more local produce, they will directly support small, local farmers. Without middlemen to charge for warehousing, transportation, and processing, consumers will, theoretically, pay less for their food, and farmers will take home more profits from what they grow.

To start changing America's diet, Hilleren is launching her own company, GreenLeaf Market, which she hopes will give farmers and consumers in southern Wisconsin more chances to connect. While GreenLeaf Market aims to be a profit-making venture — Hilleren projects its revenues will arrive at the healthy sum of $1 million annually at the end of five years — money is secondary to mission: helping people eat better.

According to Kay Plantes, who co-taught the School of Business course on the topic, social entrepreneurship is "the application of entrepreneurial thinking and solutions to social issues." Whereas every businessperson wants to create a company that grows, the social entrepreneur feels that money is merely a means to make a difference.



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Plantes, who taught economics at the UW in the early 1980s, returned to campus in the spring of 2005 to teach within the business school's Weinert Center for Entrepreneurship, and her course was the university's first devoted solely to the topic of social entrepreneurship. According to Larry Cox, who directed the Weinert Center before leaving for a position at Ball State University this fall, the course helps bridge the gap between the UW's active business community and its activist heritage.

"When I came to Madison, I asked myself what makes this school distinctive," he says. "There's high technology, sure, but there's also a strong sense of social conscience. It's part of campus history. Social entrepreneurship shows how the business school fits into that heritage. When you say the word *entrepreneur* to most people on campus, they think of someone who's obsessed with making money. But social entrepreneurship shows that business can be a catalyst for all kinds of change."

Plantes believes that the bad impression business holds in some quarters is a post-industrial phenomenon. During the Industrial Revolution, production and consumption of goods soared, and as commerce became more competitive, it also became more inquisitive and innovative — businesspeople had to understand the marketplace to succeed. However, the social sector — education, public welfare, and environmental concerns — became increasingly the province of government. Supported by taxes and sheltered from competition, these fields experienced a stifling of innovation.

"Look at railroads or refrigeration," Plantes says. "Before they became huge industries, there were companies that developed to meet specific social issues — in particular the need to feed the urban working class." But as industry and technology met more of society's basic needs, the commercial sector shifted its focus to encouraging consumption to boost profits. "We went through an era where there weren't all that many highly visible commercial opportunities that also addressed social needs," says Plantes. "Business came to focus more and more on short-term financial success, and people stopped seeing how highly interdependent business and society really are. The result is that today, America is the world's wealthiest nation, but we're hardly the country with the fewest social problems."

Social entrepreneurship is an attempt to give the spread of societal well-being the same urgency that has driven the quest for wealth. If the concept has been gaining in popularity, it's thanks in large part to an organization called Ashoka. Founded in 1980, Ashoka is "a kind of venture capitalist equivalent for social entrepreneurs," says Michele Jolin '87, the organization's vice president for global collaborations. "We look for people who have the kind of ideas that can create real change, and we offer them the initial money to get their work off the ground."

Ashoka and its founder, Bill Drayton, have become a leading force for the social entrepreneurial movement. The organization's work in identifying and assisting new ventures earned the company a place

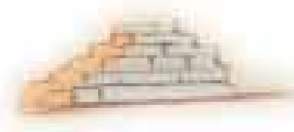
in the syllabus Plantes developed for her course. Ashoka screens entrepreneurs to find those individuals who have exceptionally innovative ideas and who possess a rare ability to work both within and outside existing systems to put those ideas into practice. In addition to being driven and relentless, Jolin adds, social entrepreneurs "have a strong ethical fiber, and they also look for the broad social impact of their work. They're not just local, but want to have a national or global effect."

Jolin and her Ashoka colleagues find inspiration in people like Jeroo Billimoria, one of the visionaries they've helped get off the ground. In 1997, Billimoria created a hotline for homeless children in Bombay, India. Billimoria's plan doesn't generate a profit, but she did develop it using an understanding of business principles, particularly branding and market analysis. With a memorable toll-free number (dial 10-9-8 for service), the hotline enables destitute children to draw on India's widespread network of public telephones to link to the services they need at support agencies.

"Jeroo is incredibly optimistic, and she has a relentless belief that change can happen," says Jolin. "Yet she's also a hard-nosed realist. This is what gave her the ability to effect change, not just talk about it."

Before joining Ashoka, Jolin worked as the chief of staff and general counsel for President Bill Clinton's Council of Economic Advisers, but she "felt a pull to work more directly, more hands-on, with people who are trying to tackle social problems on a broad scale."

Jolin's desire to make a greater social impact, says Plantes, is typical of the changing priorities of today's business world. "Trends show that companies do better when they broaden their mission to include an important environmental or community outcome," she says. "There's a new generation of employees who want to do meaningful work. There's growing evidence that consumers buy from companies that reflect their values. There are social investors who want to put their money behind companies that 'do good' for the world. And businesspeople are seeing that, ultimately, social or environmental problems are the result of an unmet market need. Social entrepreneurship is just seizing an opportunity to meet that need in a way that benefits not just the community, but also the company."



"Problems are the result of an unmet market need. Social entrepreneurship is just seizing an opportunity."

When it comes to training social entrepreneurs, Cox and the Weinert Center also saw an unmet opportunity. When he met Plantes, he decided to seize it.

"All my life I've been thinking about this stuff," Plantes says. "I've always been interested in finding how business can improve social outcomes across the country over and above income generation."

But Plantes, an MIT-trained economist, had few opportunities to explore the issue in a concrete way. It wasn't until the 1980s, after leaving the UW, that she began to delve into the concepts that would bring her back to teaching two decades later.

Plantes was heading up marketing and business development in the Madison office of Datex-Ohmeda, a manufacturer of anesthesiology equipment. Ohmeda had been losing market share to competitors that produced supposedly "higher tech" equipment, and its entire industry was facing what she calls "an enormous liability problem" — in 1985, about one in five thousand patients died due to anesthesia. Lawsuits and insurance premiums were eating up what profits there were.

That's when Ohmeda decided it was in the wrong business. It shouldn't think of itself as an outfit that manufactures and sells anesthesia equipment, Plantes and her colleagues reasoned. "We ought to be in the business of making anesthesia safer." The company sponsored a series of educational initiatives to teach anesthesiologists about the importance of regularly updating their equipment, and it helped to found the Anesthesia Patient Safety Foundation.

The results were more than feel-good propaganda. The more Ohmeda's educational work gained traction, the more often anesthesiologists replaced their equipment. Product life was cut nearly in half, and Ohmeda saw the results in rising sales. Further, by modernizing their equipment, anesthesiologists reduced their rate of error. By 2005, the incidence of death due to anesthesia had dropped to less than one in 200,000 cases, and liability costs fell accordingly.

With reduced costs and rising sales, Ohmeda experienced a renaissance. "Broadening the business concept produced a series of financial miracles," Plantes says. "And our customers, the anesthesiologists, were doing better work, and lives were being saved. It was a win-win situation."

In the 1990s, Plantes left Ohmeda to launch her own consulting business, but she remembered what she had learned: companies that stress mission over money are often more successful in both areas. It was just the lesson that Larry Cox wanted to impart to Weinert Center students.

Founded in 1986 and endowed by James Weinert MBA'69 in 1999, the center takes in fourteen MBA students a year and gives them a grounding in business planning and development, preparing them to either launch their own businesses or to help established companies create new business.

Cox became the center's director in January 2003, but he previously worked for Kansas City's Kauffman Foundation, which supports entrepreneurs who aim to

"benefit society in significant and measurable ways." So he, too, had a strong interest in the social impact of business. He incorporated a unit on social entrepreneurship in a course he was teaching, and he asked Plantes to speak to his students. The section proved so popular that in the summer of 2004, he asked Plantes to develop an entire course around the subject. Plantes contacted Jim Bower, who heads Madison's Bower Group, a consulting firm that works primarily with social entrepreneurs. many of them in the nonprofit sector.

"What we put together is the course that I missed, the one I wished I would have taken in graduate school," Bower says. Not only did he and Plantes explain what social entrepreneurship is, they required their students to develop business plans to support the social goals of various organizations: Second Harvest food pantry, YWCA, Porchlight homeless shelter. The projects were supposed to address real-world problems the organizations faced, and they would be judged not only by Bower and Plantes, but by a panel of businesspeople from around Madison.

Among the students attracted to the course was Heather Hilleren, who chose not to do one of the projects that Bower and Plantes offered. Instead, she brought her own vision of how to change the world.

BRENT NICASTRO

The field of social entrepreneurship is finding healthy growth in Madison. Just ask Heather Hilleren (left). With aid from her teachers, Kay Plantes and Jim Bower, she's launching a company that aims to give everyone "the opportunity to eat fresh, nutritious food, wherever they are."

Like Plantes, Hilleren says

she's always been interested in finding ways to turn an entrepreneurial spirit into social change. When she first came to Madison, she was teaching at Midvale Elementary School, but she left because, she says, she "wanted to make more of an impact." So she went to work at Madison's Whole Foods grocery store, where she would typically come into contact with more than a hundred people a day.

It was at Whole Foods, working in the produce department, that she had her revelation. One day, a farmer came in and offered to sell the store his stock of morel mushrooms, picked that morning. "The thing about morel farmers is that they're not typical farmers," Hilleren says. They seldom have a formal sales structure but "just go out in the woods and pick their mushrooms, which are only good for a short period of time."

The farmer wanted to unload his mushrooms while they were fresh, and Whole Foods wanted to acquire them — but it couldn't. He wasn't a registered supplier. So Whole Foods turned him down, and instead had its morels shipped in from the Pacific Northwest.

"I realized then that something was wrong with the system," says Hilleren. "We've got one of the best farmers' markets in the nation. So clearly there's a demand around here for fresh, local food." While Madison's farmers' market serves families and a few restaurants, there are many places locally produced food isn't available: grocery stores and school cafeterias, for instance. Hilleren believes all these consumers should be able to choose local foods, and she wants to give them that choice.

She enrolled in the School of Business in 2003, and she chose to go through the Weinert Center to learn how to turn her ideas into action. Initially, she was interested in doing nonprofit work, so she signed up for Plantes and Bower's course. But when it came time to put together her project, she decided to draw on her Whole Foods experience — her business plan was to create GreenLeaf Market.

The key to the venture is convenience. "Right now," she says, "it's very difficult for local farmers to get their products before buyers, and it's hard for grocery stores, restaurants, and other institutions to shop directly from farmers, especially if they want to buy in bulk."

What Hilleren envisioned was an online marketplace, where farmers from southern Wisconsin could list their produce and where buyers could comparison shop. Need two hundred pounds of organically grown heirloom tomatoes? GreenLeaf Market would enable buyers to find nearby farmers, see what varieties of tomatoes they have on hand, read about their agricultural practices, and compare prices with competing growers.

"It's sort of like a vegetable eBay," Hilleren says. GreenLeaf Market doesn't buy, sell, or ship produce — it's merely a conduit for connecting the people who do. It makes its money either by charging

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a fee per transaction or by charging an overall subscription fee.

Still, though Hilleren enjoyed creating her project, she didn't think it would go much further than a grade. "It wasn't until I presented it and the entire class rallied behind me that I knew this was an idea that could go somewhere."

One of the businesspeople who judged the projects offered to invest in GreenLeaf Market, which went from a class project in April to a corporation in May and will go live in spring 2006. But in spite of this dizzying progress, Hilleren knows she will need more concrete aid to ensure her creation's success.

Just about everyone can tell you that nine out of ten new businesses go bankrupt within the first year. But just about everyone exaggerates. Still, the outlook for entrepreneurs is daunting. Some 50 percent of new ventures fail within five years, and nearly two-thirds of them close within ten years. These statistics apply to social entrepreneurs no less than anyone else. And so the Weinert Center offers its alumni an edge in the fight for survival: the Weinert Applied Ventures in Entrepreneurship (WAVE) program.

WAVE identifies the most promising ideas among Weinert students and offers them capital to get those ideas off the ground. "Our central purpose is to encourage entrepreneurship and to complete the education that began in our classes," Cox says. But while WAVE gives money to its trained entrepreneurs, "these aren't grants. They're investments, and we offer them either in the form of loans or as stock purchases. We expect to recover the money with some return."

Hilleren has applied for WAVE support for GreenLeaf Market, and she is also working with Jim Bower and others to push the venture forward. Today, Hilleren is lining up farmers and buyers.

"The holy grail is the institutional market," she says. "If I can get large organizations, such as hospitals and schools and the UW, then I can really reach large numbers of people."

While Hilleren believes that GreenLeaf Market will prove a successful business in southern Wisconsin, she hopes it will have a much wider effect. "Once we prove the concept," she says, "then we can roll it out around the country."

Or maybe not. Since only a third of new businesses survive that first decade, financial success is far from certain. But that, she says, isn't the point. "Being an entrepreneur doesn't just mean having new ideas," she says. "Ideas are a dime a dozen, and a lot of them result in successful companies. I want to create a company that doesn't just do well. I want to create a company that does good."

John Allen is associate editor of *On Wisconsin*.

Cascading Success

The goal of any good social entrepreneur is to create a business that achieves measurable success on a socially worthwhile mission. Few Weinert Center graduates have achieved both goals as successfully as Neil Peters-Michaud '93, MBA'99, founder of Madison's Cascade Asset Management.

Cascade, which recycles and rehabilitates computers and other information technology equipment, grew out of Peters-Michaud's experience at UW-Madison. Before he entered business school in 1997, he managed SWAP, the university's Surplus with a Purpose program, which recycles "solid waste" — meaning old computers, furniture, lab equipment, building fixtures, and anything else that might go into a garbage dump. "My background was in recycling," he says, "and when I entered the Weinert Center, I had in the back of my mind that there was a business opportunity in this."

While in the MBA program, Peters-Michaud developed the plan that would become Cascade. He wanted to form a company that applied the SWAP principles — reuse, resell, recycle — to help companies manage their most expensive garbage: computers.

Computers are problematic because they have a short functional life — technological developments quickly drive them into obsolescence — and they aren't easy to dispose of: they contain some two hundred different heavy metals that require special handling. Peters-Michaud wanted to help companies "cascade" their old computers: they shouldn't throw them away but rather drop them to the next level of usefulness. "First, we try to prepare the equipment to be redeployed within the original company or prepare them for resale," he says. "If neither of those options will work, we harvest the parts and sell off memory cards and integrated circuits, recycling everything we can. Then we disassemble the remainder into its components, removing the hazardous materials."

Cascade makes its revenue by charging companies for disposing of their equipment, as well as from sales of recycled computers and parts, and it returns a share of resale revenue to the computers' previous owners.

The Weinert Applied Ventures in Entrepreneurship (WAVE) program helped get Cascade off the ground with a $100,000 investment, which purchased a 10 percent share of the venture. Today, Cascade has clients that include American Family Insurance, Harley-Davidson, and UW-Milwaukee, and in late 2004, profits had grown to such a point that Peters-Michaud was able to buy out WAVE's share in the company, returning the university $240,000 on its investment.

Still, Peters-Michaud measures Cascade's success not by its profits but rather by its environmental impact. "Our biggest point of pride," he says, "is that we've processed 12.6 million pounds of equipment, and we've managed to keep more than 670,000 pounds of hazardous materials out of landfills."

To former Weinert Center director Larry Cox, this is the heart of social entrepreneurship. "It's a for-profit business" he says, "but its real aim is to accomplish a social mission. It has explicit and measurable goals for improving society."

— J.A.