

The MicroConsignment Model Reconsidered

Invention-Led Development by Shifting Risk, Transferring Knowledge, and Scaling Capabilities

*Innovations Case Discussion:
The MicroConsignment Model*

There is a great deal of debate about the definition of social entrepreneurship. I use an emerging definition: “Innovative and effective activities that focus strategically on resolving social market failures and creating opportunities to add social value systematically by using a range of organizational formats to maximize social impact and bring about change.”¹ This definition acknowledges three key aspects of social entrepreneurship: an innovative element, a primary focus on the creation of social value, and a diverse set of approaches that employ creativity to deliver social value. Thus it paves the way for a greater understanding of “invention-led development,” which, according to the Lemelson Foundation, focuses on how new ideas, products, or services can be converted to widely accessible or adopted forms in the creation of social value.

When the language of invention-led development is used, it conjures up images of novel products and services used in development activities. On the product side, for example, a treadle pump—such as those designed by KickStart—offers significant advantages over other alternatives in improving irrigation for subsistence farmers in Africa. Similarly, on the service side, the creation of micro-finance by organizations such as Grameen Bank makes credit available to populations that previously had been denied such access.

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However, innovative development activities need not be limited to a product or service. The case of Community Enterprise Solutions offers a compelling invention-led development that is neither a product nor a service but a distribution model, termed the MicroConsignment Model (MCM). After several conversations, phone calls, and meetings with Greg Van Kirk over the last year, I took the opportunity to understand the MCM model more fully through my own firsthand experience in Guatemala and through the secondhand experiences of my students. These experiences, coupled with the social impact to date of Community Enterprise Solutions, suggest that the MCM model has substantial potential as an invention-led development that can leverage an operating system to promote opportunities for shifting risk, for transferring knowledge, and for scaling capabilities.

INNOVATION AS A DISTRIBUTION MODEL

The MCM model is one of the most intriguing aspects of the invention-led development of Community Enterprise Solutions, which was developed by Greg Van Kirk and Bucky Glickley. As Joseph Schumpeter suggests, an entrepreneurial solution may include any of the following: a new product or service, a new market, a new source of raw materials, or a new organizing method.² Rather than focusing on a specific product or service, microconsignment is an innovation method of organizing that, like a business model, identifies how all the elements of a system fit into a working whole. As Van Kirk suggests in his case study, “There are products in existence. There is no lack of technology solutions. . . . There is no lack of local and foreign human capital looking for solutions. Local individuals with entrepreneurial spirit are in no short order.”

Building on a range of development experiences, the MCM was created by assembling the pieces of an integrative model. The MCM borrows from the tradition of consignment in the retailing industry, where the ownership of goods is retained by the supplier, price is set by the supplier, goods are sold by the retailer for a percentage of the sales price, and money is exchanged only after the sale has been made. Drawing on the consignment model, Community Enterprise Solutions is able to avoid many of the challenges of other development approaches, including lack of training, antagonistic relationships, and substantial financial risk.

Research suggests that the decision to become an entrepreneur is a function of both feasibility and desirability.³ Assuming such factors are relevant for microentrepreneurs, the MCM creates an opportunity to expand the number of microentrepreneurs in the developing world; from a feasibility perspective, the MCM offers microentrepreneurs increased training and a proven opportunity using previously vetted products/services to increase the likelihood of success.⁴ In this way, the MCM allows microentrepreneurs to envision themselves as entrepreneurs more easily and to gain confidence in their business skills through their early success. From a desirability perspective, the MCM offers microentrepreneurs a lower level of risk and reduced antagonism because the microentrepreneur and the microcon-

signment organization sit on the same side of the table. As a result, the microentrepreneur may see the opportunity as more desirable and be motivated to “test drive” the model.

The MCM model also offers an operating system platform that allows other products and services to be easily integrated. Like Microsoft’s Windows, the MCM offers an opportunity to piggyback new products or services onto the existing infrastructure and therefore to expand the offering of both the microentrepreneurs and the system as a whole. However, as a social rather than a commercial innovation, the MCM is available as an open-source model for other organizations to replicate and adapt for the creation of social value. As a result, the MCM holds great promise as a new platform for invention-led development.

SHIFTING RISK

One primary advantage of the MCM is its ability to shift risk from those who can least afford to take it (microentrepreneurs) to those who are more able to bear it (microconsignment organizations). Several established models (e.g., microfinance) and emerging models (e.g., microfranchise) of social entrepreneurship require the microentrepreneur to bear substantial financial risk. The argument in favor of this is accountability: proponents suggest that if the microentrepreneur takes a financial risk they will have to have skin in the game, as angel investors and venture capitalists typically require. However, in the developing world, such an approach may not be appropriate because the financial risk associated with failure may put not only the microentrepreneur but also their family members in debt for an extended period of time.

Community Enterprise Solutions, in contrast, does not require the microentrepreneur to take such risks. Instead, the MCM allows the microentrepreneur to test drive the model and to invest sweat equity rather than borrowed financial capital. This shift of risk from the microentrepreneur to the microconsignment organization allows microentrepreneurs to realize a profit within one month of startup, and makes the opportunity available to a greater number of potential microentrepreneurs by shifting the risk from a financial to a time risk—the opportunity cost of investing time without realizing benefits.

One outcome of shifting risk is the avoidance of systemic failure. In many development approaches, the economic condition for the majority of microentrepreneurs is improved. However, what happens to the unsuccessful microentrepreneurs? While some development approaches leave unsuccessful microentrepreneurs mired in debt, the MCM—through the elimination of startup costs and loans—avoids the systemic failure of any microentrepreneurs who simply incur the opportunity cost of investing their time. As such, the MCM adheres to the principle of *primum non nocere* by ensuring that no harm is done to even unsuccessful microentrepreneurs.

Shifting risk also provides a “real options” opportunity for the microentrepreneur in which smaller initial investments can be made, thereby limiting the down-

side of a negative outcome without constraining the upside of a positive outcome. That is, the microentrepreneur can invest a small amount (of time) to test drive the model before making additional investments of time. The limited investment of time does not limit the potential financial upside of becoming a microentrepreneur, and such additional investments can be made after assessing some level of performance. In this way, the real option available for the microentrepreneur allows them to assess risk (with some understanding of probabilities and outcomes) rather than uncertainty (with essentially unknown probabilities and outcomes) before making additional investments.

As risk is shifted from the microentrepreneur to the organization, it aligns the interests of both parties in a way that gives the microconsignment organization incentives to remain focused on the desired outcome rather than the input. As Van Kirk recounts from his personal experience, some microfinance organizations have used metrics such as the number of loans and payback rate, which do not necessarily equate with social impact. By comparison, the MCM encourages the microconsignment organization to measure outcomes based on the success of the microentrepreneurs, which in turn benefits the organization as well.

KNOWLEDGE TRANSFER THROUGH EXPERIENCE

Another important benefit of the MCM is the ability to affect education at multiple levels through experiential learning.⁵ First, the MCM offers the opportunity for individuals with very little education to become very successful entrepreneurs. As described above, the microentrepreneur is trained and supported by the microconsignment organization in all aspects of the business. While such training increases the microentrepreneur's chance of success, it also adds to their stock of knowledge. In this way, the microentrepreneur experiences hands-on learning by participating in the MCM. Second, the MCM also provides experiential learning for the microconsignment organization. Rather than being affixed to a certain product or service, the MCM relies on the microentrepreneur to interact with potential consumers to identify and evaluate new products and services, which may create value for consumers and be distributed by the MCM. As such, the MCM provides a platform for the ongoing creation of organizational knowledge about development interventions that create social and economic value.

Another form of knowledge is generated through the education of a new group of potential social entrepreneurs. As Community Enterprise Solutions has considered funding alternatives, one recent innovation is the creation of a Social Entrepreneur (SE) Corps, in which students go to the developing world to learn, question, and experiment with the MCM and other development programs. Building on the founders' own grassroots experiences in the Peace Corps, SE Corps offers an opportunity to bring new people into the field and to equip them with knowledge gained through hands-on experience in the developing countries of Guatemala and Ecuador. This approach allows students to gain a realistic preview

of development work and to understand some of the unique challenges of being a social entrepreneur.⁶

While university programs at the undergraduate and graduate level continue to offer coursework in social entrepreneurship, relatively few co-curricular and hands-on experiential learning options are available. As the field of social entrepreneurship continues to develop, we need to provide new educational and pedagogical tools that enable our students to realize their potential in acting as change agents for themselves and their communities, thereby allowing them to invent profitable and sustainable approaches that create solutions to change society for the better.⁷ In this way, Community Enterprise Solutions contributes to the education of future generations of social entrepreneurs.

SCALING OPPORTUNITIES

A final benefit of the MCM is the myriad of mechanisms through which the scaling of social impact can occur. Scaling refers to the increase of social value that can occur through an invention-led development. It can occur first through the addition of products or services for Community Enterprise Solutions. Whether they are identified through microentrepreneurs or foreign development workers, effectively vetted products and services can be added to the MCM's infrastructure to provide access to the growing number of products and services available to the rural poor and to increase income opportunities for the microentrepreneurs.

Second, scaling can be realized by expanding the model to include other geographic markets. The recent expansion of Community Enterprise Solutions to Ecuador is an important step in understanding the MCM's ability to be replicated in other geographic regions where common problems of access to basic products and services exist. Third, the MCM offers scaling possibilities through replication by other organizations. In microfinance, replication and adaptation accounted for significantly increased access to microcredit. In the same way, the MCM offers a platform for other organizations to scale social impact.

Finally, the MCM provides a mechanism for the scaling of education. Having personally met Yoly Acajalon and Clara Luz de Montezuma, the microentrepreneurs described in the opening vignette of Greg Van Kirk's case study, I have witnessed the scaling of education. These two women have increased their knowledge and skills, resulting in their being promoted from community advisors to regional coordinators, the latter position being one that trains prospective community advisors. The MCM has provided the same sort of scaling for students of social entrepreneurship. The growth of the SE Corps to additional universities and the growth of individual students—such as Mary Claire Sullivan from the University of Notre Dame and Mike Duchon from Miami University (Ohio), who have taken coursework in social entrepreneurship, participated in the summer internship program, and joined Community Enterprise Solutions with full-time commitments—illustrate the scaling of social impact through education.

THE FUTURE OF MCM: CHALLENGES AND PROSPECTS

Under the leadership of Greg Van Kirk and Bucky Glickley, Community Enterprise Solutions has created an extraordinary invention-led development in the MCM. Looking beyond the benefits, a few important challenges remain for the growth and development of the organization and the model.

While one benefit of the MCM is that capital is not required of microentrepreneurs, it is also one of the constraints of the MCM's growth. By reducing the barriers to entry for microentrepreneurs, Community Enterprise Solutions has also tied up valuable and scarce financial capital in the inventory of products and services. As identified, this approach results in shifting risks from the microentrepreneur to the organization and is therefore desirable, especially in the short run. However, in the long run, other approaches may need to be considered. One possible approach is to shift risks back to the microentrepreneur over time. For example, in the first year as a microentrepreneur, an individual may have access to all products and services on a consignment basis. If successful, the microentrepreneur may increase both their confidence and their income. In the second year, the microentrepreneur might pay for 50 percent of the inventory before they sell it, and over time may move toward a retailer relationship where they purchase and then resell the inventory. Alternatively, such a hybrid approach could be used for different products or services. As such, microentrepreneurs may buy proven products but receive on consignment new products or services that are being introduced into Community Enterprise Solutions.

While the details and challenges to such an approach would need to be tested, there are at least two benefits to making the transition from a consignment model to retailer model. First, from an organizational level, Community Enterprise Solutions is able to free up valuable working capital that can be used to expand the model by introducing other products/services or by expanding to other geographic areas. Second, from a microentrepreneur's perspective, this approach encourages the growth and development of individual knowledge and skills by fostering personal savings, autonomy, and business acumen that may be useful within or outside of the role as a community advisor. It is consistent with other development approaches that encourage personal responsibility, but it also recognizes that such responsibility and risk should only be taken when successful training, education, and experience have been realized.

A second challenge for the continued growth of the MCM is identifying microentrepreneurs in developing countries. While the concept of self-employment is gaining recognition through several different social innovation approaches, potential microentrepreneurs, who generally pursue self-employment out of necessity, are still risk averse. To encourage more participation by a growing number of microentrepreneurs, the MCM lowers the barriers and reduces the negative outcomes of microentrepreneurship.

In sum, the MCM is one of the most promising platforms for invention-led development in the field of social entrepreneurship. As such, Community

Enterprise Solutions and its founders, Greg Van Kirk and Bucky Glickley, are to be applauded. Community Enterprise Solutions offers better access to essential products and services in developing countries and an opportunity for microentrepreneurs to develop new skills and increase their income. It provides a unique operating system as a distribution model that encourages shifting risk, knowledge transfer, and scaling capabilities. The Lemelson Foundation suggests that an invention-led development should be widely accessible and adopted. Additional resources in various forms of capital are needed to increase the accessibility and adoption of the promising MCM: Financial capital needs to be added in stages for further replication and expansion of the model. Human capital is needed in the form of additional microentrepreneurs and aspiring social entrepreneurial students. Social capital is needed to increase the products and services available, and to integrate the MCM with other forms of invention-led development. Such investments of financial, human, and social capital in this most promising invention-led development are needed—and warranted—to maximize social impact and build the bridge to the last mile.

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