

## SOCIAL ENTERPRISE

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**Abstract.** *This article considers the methodological challenge of quantifying the social value generated through social enterprise activity. It argues that in the context of increasing enthusiasm for social enterprise as a mechanism for delivering social services and for tackling social exclusion, it is increasingly necessary to be able to value social impacts. Further it will be necessary to be able to assess the potential creation of social value from different investments in social enterprise. Specifically, this article considers methodology of social return on investment (SROI). SROI has become increasingly promoted in both policy and practice in the United States and the United Kingdom. This article considers the development of this methodology and draws on lessons from international development to highlight the limitations of the current use of SROI.*

**Keywords:** Social Change, Social Entrepreneurship, Social Innovation, Social Finance

The importance to the European economy and society of co-operatives, mutual societies, associations, foundations and social enterprises (which together are sometimes referred to as the Social Economy) is now receiving greater recognition at Member State and European levels. Not only are they significant economic actors, they also play a key role in involving their members and European citizens more fully in Society.

Social Economy enterprises are helping to meet the demands of a changing Europe. They are important sources of entrepreneurship and jobs in areas where traditional "investor driven" enterprise structures may not always be viable.

Social enterprises are social mission driven organizations which trade in goods or services for a social purpose. Their aim to accomplish targets that are social and environmental as well as financial is often referred to as having a triple bottom line. Social enterprises are profit-making businesses set up to tackle a social or environmental need.

Many commercial businesses would consider themselves to have social objectives, but social enterprises are distinctive because their social or environmental purpose is central to what they do. Rather than maximising

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shareholder value, their main aim is to generate profit to further their social and environmental goals.

Therefore some commentators describe them as 'not-for-profit' as their profits are not (at least primarily) distributed to financial investors. Others dislike the term as it suggests they have an unbusiness like attitude.

An ingenious solution to this quandary is to call them for 'more-than-profit'.

It could be that the profit (or surplus) from the business is used to support social aims (whether or not related to the activity of the business, as in a charity shop), or that the business itself accomplishes the social aim through its operation, for instance by employing disadvantaged people (social firms) or lending to businesses that have difficulty in securing investment from mainstream lenders.

Social enterprises are generally held to comprise the more businesslike end of the spectrum of organisations that make up the third sector or social economy. A commonly-cited rule of thumb is that their income is derived from the business trading rather than from subsidy or donations.

The term 'social traders' can be used to describe the people who establish and manage social enterprise organisations.

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

Within this definition, social enterprises can take on a variety of legal forms, including:

- unincorporated associations
- trusts
- limited companies
- some industrial and provident societies such as community benefit societies.

Social enterprises also need to consider whether or not to set themselves up as a charity, which has a number of benefits, including significant tax reliefs, but comes with increased regulation and less flexibility.

Social enterprise is a different way of doing business. A social enterprise is a business that trades for a social purpose. The social aims of the business are of equal importance to its commercial activities, and this combination is often referred to as the 'double bottom line'.

Like any business, a social enterprise focuses on generating an income through the sale of goods and services to a market but the added value of a social enterprise comes from the way in which it uses its profits to maximise social, community or environmental benefits.

Both social enterprise and business planning come with their own sets of jargon and terminology. Wherever practical, we have attempted to explain the meaning of any jargon that you should expect to encounter. We have also included details of some websites containing ‘jargon-busting’ information within the Resources section. The social enterprise sector is both vibrant and developing.

The Future of Social Enterprise considers the confluence of forces that is shaping the field of social enterprise, changing the way that funders, practitioners, scholars, and organizations measure performance.

We trace a growing pool of potential funding sources to solve social problems, much of it stemming from an intergenerational transfer of wealth and new wealth from financial and high-tech entrepreneurs. We examine how these organizations can best access the untapped resources by demonstrating mission performance and then propose three potential scenarios for how this sector might evolve:

**Consolidation:** In this scenario, funding will keep growing in a gradual, linear fashion and organizations will compete for resources by demonstrating performance. The sector will consolidate, with some efficient organizations gaining scale, some merging and then growing, and some failing to achieve either scale or efficiency and eventually shutting down.

**Entrepreneurial:** In a more optimistic future, existing and new enterprises will apply strategies to achieve and demonstrate performance, improving efficiency and effectiveness and attracting new funding sources.

More organizations will enter a reformed, competitive field of social change with new entrepreneurial models, established traditional organizations, and innovative funding strategies fueling widespread success.

**Expressive:** Rather than focusing exclusively on performance, funders and organizations may view their investment as an expressive civic activity. As much value is placed on participating in a cause as on employing concrete measures of impact or efficiency. In this scenario, funding will flow as social entrepreneurs experiment with new models based on a range of individual priorities and relationships.

As the traditional nonprofit sector broadens to include a range of social enterprise models, the social sector faces three major transformations:

☒ Changes in the flow of funds, due to commercial activity by socially minded organizations as well as growing philanthropic sources, especially the vast sums of anticipated intergenerational wealth transfer and new wealth from financial and high-tech entrepreneurs

☒ A shift in the role of government, both in terms of responsibility and distribution of resources, as traditional models of grant funding give way to market competition in which nonprofit and for-profit entities compete for government contracts and consumer subsidies

☒ A transformation of ideas on how to allocate resources and what results to expect as philanthropy is increasingly viewed as a social “investment,” especially as more potential funders with entrepreneurial backgrounds enter the philanthropic market.

In the face of these challenges, the functional questions for nonprofit leaders and social entrepreneurs are how to acquire resources, how to build successful organizations, and how to achieve impact – and for those actors and intermediaries who support the sector with funding and expertise, how to advance all three goals. In response to these questions, the social enterprise literature is awash with claims of groundbreaking innovation, from venture philanthropy to corporate social responsibility, which offer the equivalent of philanthropic “silver bullets.”

Data trends, however, suggest a somewhat different story, one of steady but not remarkable growth influenced by major demographic and political changes, and accompanied by a wealth of new models whose potential has not yet been fully explored.

In fact, many innovative approaches and models that have emerged over the last 10 years remain in their infancy and await a “quantum” push to exhibit widespread benefit.

Given the apparent challenges and opportunities in designing, funding, staffing, and measuring social change organizations, what does the future hold for this sector? Among a broad range of possibilities, several distinct scenarios may emerge from the current transition occurring within social enterprise. The degree to which social enterprise organizations can achieve, measure, and communicate performance is located on the vertical axis, while the amount of funding they can attract is located on the horizontal axis.

The Small Business Service (SBS) and Business Link should be able to assist any enterprise that requires access to market-oriented business knowledge and skills in areas such as marketing, use of ICT and financial management, regardless of how any surplus that is generated is to be distributed. Moreover, to be competitive,

socially owned businesses should have an opportunity to access to high quality advice and assistance similar to privately owned enterprises.

Even 'not-for-profit' organisations have support needs in terms of business skills and advice (such as competencies in financial reporting and control) that Business Link may, in principle, be in a position to address.

However, it can be argued that typical small business support needs have distinctive characteristics in social enterprises that require specialised assistance. One example is in marketing, where the image of social enterprises among mainstream customers presents a particular challenge. Another is with respect to human resource management, where the extent to which social enterprises rely on unpaid, volunteer staff can lead to tensions between volunteers and professional managers.

A further example is where management decisions may be directly accountable to those subject to them (i.e. employees), which means that appropriate support provision must include advisers with knowledge and experience relevant to participatory management styles.

Even finance issues have additional dimensions in the case of social enterprises, for example the skills associated with completing funding bids.

### **Conclusions**

Significant changes are occurring in the field of social enterprise, including major developments in the flow of funding, growing but often untapped philanthropic resources, and a shift in the role of government, as well as new social investment models and impact measurement tools. All of these phenomena are occurring against a larger backdrop of demographic and market change as boundaries blur among the traditional nonprofit, for-profit, and public-sector silos. Currently, the sector remains on the brink of several possible futures, including consolidation, entrepreneurial growth, and expressive experimentation.

The scenario that unfolds over the next 20 years will depend largely on the ability of social enterprise leaders to make a leap forward in thought and action to capitalize on the abundant potential for social change.

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