Social Enterprises: a short note

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Objective

The objective of this note is to address the following four questions about social enterprises:
1. Why do we need social enterprises?
2. What differentiates social enterprises from economic enterprises?
3. How to accelerate the development of social enterprises worldwide?
4. What are the potential areas for research on social enterprises?

1. Why do we need social enterprises?

In the past, several key sectors of the national economy especially in developing countries were managed by state owned enterprises (also known as public enterprises). These enterprises aimed to simultaneously achieve the twin objectives of social welfare and economic profits. As shown in Figure 1, public enterprises (cells 1 and 3) were guided by an inclusive philosophy that aimed to serve all sections of society – privileged and underprivileged – with essential goods and services at reasonable prices. Unfortunately, the experiment failed, as most public enterprises neither served the social good effectively nor were they managed enterprisingly.

Figure 1: Market participants in social and economic enterprises

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With increasing deregulation, privatization and globalization of the world economy, governments are redefining their role from economic managers to economic facilitators. The responsibility for providing even the basic necessities of life such as food, water, education, health, housing, etc. is shifting increasingly from governments to markets. As public enterprises give way to economic enterprises (figure 1, cell 2) in a world guided by free markets, the national and international economic systems are increasingly designed to channel resources towards serving the needs of the privileged, without taking into consideration the needs of the large number of people who are underprivileged. Since the market-based economic architecture by definition excludes those who cannot participate in the markets for various reasons such as lack of finance, education or skills; physical, mental or other handicap, etc., it has created a new niche (cell 4) occupied by people who are not served adequately by economic enterprises in a free market system. The aim of social enterprises is to serve the needs of those who occupy this niche.

Another important reason for promoting social enterprises is to empower and give voice to the underprivileged. Due to their lack of economic wealth, the disadvantaged cannot participate in or directly influence markets. Furthermore, with ever-increasing nexus between governments and corporations – both explicit and tacit – the poor are largely outside the political decision-making process. In democratic societies, the government and public administration periodically touch the needy, albeit for a short period before the elections. With neither the markets nor the governments interested in their welfare, the impoverished are left in a hapless state. It is this niche in society that needs to be targeted by social enterprises. Social enterprises are needed alongside economic enterprises to achieve equitable social and economic development for all sections of society.

2. What differentiates social enterprises from economic enterprises?
Unlike economic enterprises whose main aim is to serve the exclusive and profitable segments of society, the aim of social enterprises is to create alternative markets that are inclusive and serve the needs of everyone, especially the disadvantaged. As shown in figure 2, whereas profit is the primary motive and an end in itself for economic enterprises (cell 1), in the case of social enterprises, the key motive is to enhance human welfare (cell 4), with profits as a means to make social enterprises sustainable (cell 2). Social enterprises therefore need to finely balance the often-conflicting goals of social and economic value creation, i.e., people and profits. They are a hybrid organizational form that straddles both corporations and charities: they are companies with charitable values, and charities with entrepreneurial
motivation and drive. Social entrepreneurs therefore need to position themselves uniquely – at the intersection of corporations and charities.

Figure 2: Motives of social and economic enterprises

Although corporate social responsibility is a positive development for making business activities more inclusive, it is likely to be a supplement rather than a substitute for social enterprises. The reason is simple. The raison d’etre for corporations is profits (figure 2, cell 1); it is their primary goal, with people used as a means to achieve this objective (cell 3). In addition, with increasing popularity of corporate social responsibility, management gurus often advise firms to use it as a strategic tool, i.e., as a means to gain competitive advantage and increase profits, rather than to achieve broad social objectives. Thus, CSR may supplement, but cannot be a substitute for, social enterprises.

3. How to accelerate the development of social enterprises worldwide?

Sources of capital

The objective of capital markets is to allocate resources most efficiently, that is, to enterprises that yield the highest return. However, the primary objective of social enterprises is to create social benefits, i.e., to enhance human welfare. The creation of economic benefits, i.e., profits is a secondary objective and simply a means to sustain the social mission. Thus, the traditional capital markets are unlikely to find attractive investment opportunities in the social enterprise space. Social enterprises therefore need to seek capital from alternative sources such as foundations, governments, transnational government institutions such as UN, EU,
ASEAN, and other sources that seek reasonable not maximal returns on investments. Another possible source of funding for social enterprises could be the economic enterprises that outsource their corporate social activities. These economic enterprises could support social enterprises either directly by financing a social activity, or indirectly by channeling investments through an intermediary that specializes in finding and funding social activities and enterprises that fit the corporate objective. However, divergent social missions of the corporation and the social enterprise may become a potential source of conflict, adversely affecting the achievement of social objectives.

**Size and ownership structure**

To enable social enterprises to compete effectively against their economic counterparts, it is important to create and develop a number of both large and small social enterprises. Similarly, their ownership structure could mimic that of their economic counterparts, that is, social enterprises could be owned publicly, privately, through public-private partnership or cooperatively. However, since the cooperative structure most closely captures the spirit of a social enterprise, it should be the preferred ownership mode for a social enterprise. A cooperative structure would be most effective in aligning the diverse interests of the various stakeholders involved in the cooperative, such as owners, suppliers, producers and customers, with most stakeholders simultaneously having multiple levels of engagement with the cooperative.

**Performance measurement**

Performance metrics depend on the purpose of an enterprise and the two must be consistent with each other. Since the main purpose of a social enterprise is human well-being, its performance should be measured on outcomes that are significantly different from and much broader than the simple, one-dimensional indicators such as profits and returns on investment that are used to measure the performance of economic enterprises. New metrics are therefore needed to measure the value created by social enterprises. Some examples of the metrics that could be used to evaluate social enterprises include: the number of people benefited by the enterprise; the extent to which individuals involved in the social enterprise developed useful skills and capabilities, enhanced their income, improved their overall well-being and became useful and productive members of society, etc. More research is needed to arrive at a set of performance measures that are broadly acceptable and comparable across diverse social enterprises, countries and cultures worldwide.
Moving forward: Institutes of Social Entrepreneurship

To actively promote social entrepreneurship, specialized institutions are required that focus primarily on social entrepreneurship teaching and research. Just as specialized business schools emerged in the last century for developing economic enterprises, dedicated institutes of social entrepreneurship are needed to focus on developing theoretical and practical knowledge, tools and frameworks for the creation, growth and development of social enterprises. Courses and departments in current business schools is a good start but may not be adequate to scale up the study of social entrepreneurship, especially if there is tension between teaching and researching nascent social enterprises versus existing large, well-established and well-resourced economic enterprises. In addition, since the nature of activities carried out by social enterprises is likely to vary significantly across countries that are at different stages of economic development, the process of knowledge creation about social entrepreneurship need to be diffused worldwide.

A caveat!

Finally, there is a need to guard against “opportunistic” entrepreneurs who may mislabel their economic enterprises as social enterprises simply to take advantage of the positive perceptions of society/customers. Over time, the actions of these entrepreneurs could result in negative public attitudes towards social enterprises and ultimately destroy the mission of “real” social enterprises. Since social and economic enterprises are both enterprises, some overlap is inevitable. Nonetheless, it is critical that the definitions and boundaries of social and economic enterprises are delineated clearly and precisely, to ensure sustainable development of this newly emerging field of social entrepreneurship.

5. What are the potential areas for research on social enterprises?

There is growing amount of scholarly literature that provides support for social enterprises. However, the logic for the creation and existence of social enterprises does not seem to rest on the foundations of a strong theory. For social enterprises to coexist and compete with economic enterprises, it is crucial that their creation, growth and development are justified on strong theoretical grounds. Just as the existence of economic enterprises is founded in economics and innovation, there is a need to make a case for social enterprises based on one or more fields of economics, sociology, psychology, theology, political economy, etc. Without a strong theoretical foundation, there is a danger that the euphoria surrounding social entrepreneurship may be lost, and the interest in social enterprises may decline, resulting in
the failure of a much-needed organization form that has the potential to make a significant impact on the poor and the marginalized who are unable to participate in the market economy due to a lack of adequate resources.

The research could be carried out at three broad levels:
- At the level of social enterprises,
- At the level of social entrepreneurs, and
- At the level of activities carried out by a social enterprise.

Some examples of the research questions that could be explored are:

**Definition of Social entrepreneurship**
- What is entrepreneurship?
- Types of entrepreneurship – social, economic, etc.
- What criteria should be used to classify enterprises into various typologies?

**Creation of Social Enterprises**
- Do we need social enterprises?
- Are social entrepreneurs born or made?
- What are the key characteristics of a social entrepreneur and how can these be developed through education and training?
- How to sustain, scale up and replicate world-class social entrepreneurship practices and policies nationally and internationally?
- What policy measures can be taken by governments to cultivate social enterprises?

**Management of Social Enterprises**
- What are the key issues in the management of social enterprises, and how are these different from those confronting economic enterprises?
- How to measure the performance of social enterprises?
- How to benchmark the performance of social enterprises, for example, against economic enterprises, across industries and countries, etc.?
- What are the opportunities for and the challenges of innovation and internationalization in social enterprises?

Given the growing interest in social enterprises and the gap in the social entrepreneurship literature, there is an opportunity to make original contribution to social entrepreneurship theory, policy and practice through books and scholarly articles in mainstream management journals. In addition, there is a need to develop teaching and research materials and resources based on social enterprises operating in both developed and
developing countries. A comparative perspective will enrich the development of informed social entrepreneurship practice and policy worldwide.

**Conclusions**

While it is undeniable that the industrial revolution of the 19th and 20th centuries has created enormous wealth, it has also created a high level of inequality and disparity in wealth, income and overall human well-being. Social enterprises provide a new, alternative development path that can lead to both social and economic progress in a balanced and equitable manner. There is a strong need today for this new form of organization to evolve and become a source of socio-economic transformation worldwide.