

# Conceptions of Social Enterprise in Europe: A Comparative Perspective with the United States<sup>1</sup>

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To appear in B. Gidron & Y. Hasenfeld, eds, (2012) *Social Enterprises. An Organizational Perspective*, Palgrave Macmillan.

## Introduction

The concepts of "social enterprise", "social entrepreneurship" and "social entrepreneur" were almost unknown or at least unused some twenty or even ten years ago. In the last decade however, they have made amazing breakthroughs on both sides of the Atlantic, especially in EU countries and the United States. They are also attracting increasing interest in other regions, such as Eastern Asia (Defourny and Kim, 2011) and Latin America.

In Europe, the concept of social enterprise made its first appearance in the very early 1990s, at the very heart of the third sector. According to a European tradition (Evers and Laville, 2004), the third sector brings together co-operatives, associations, mutual societies and increasingly foundations, or in other words, all not-for-profit private organizations, such a third sector being labelled the "social economy" in some European countries. More precisely, the impetus was first an Italian one and was closely linked with the co-operative movement: in 1991, the Italian Parliament passed a law creating a specific legal form for "social co-operatives" and the latter went on to experience an extraordinary growth. The concept of social enterprise, which includes social cooperatives as one model among others, doesn't compete at all with the concept of social economy. It rather helps to identify entrepreneurial dynamics at the very heart of the third sector within the various European socio-economic contexts.

In the United States, the concepts of social entrepreneurship and social enterprise also met with a very positive response in the early 1990s. In 1993, for instance, the Harvard Business School launched the "Social Enterprise Initiative", one of the milestones of the period.

Since this early period, the debate has expanded in various types of institutions. Major universities have developed research and training programs. International research networks have been set up, like the EMES European Research Network, which has gathered, since 1996, research centres from most countries of the EU-15, and the Social Enterprise Knowledge Network (SEKN), which was formed in 2001 by leading Latin-American business schools and the Harvard Business School. Various foundations have set up training and support programs for social enterprises or social entrepreneurs. Last but not least, various European countries have passed new laws to promote social enterprises (Roelants, 2009).

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<sup>1</sup> This chapter is based on a previously published article (Defourny and Nyssens, 2010) which has been reshaped and updated.

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However, what is striking is the fact that the debates on both sides of the Atlantic took place in parallel trajectories, with very few connections between them, until the years 2004-5. From a scientific point of view, the first bridges were built by Nicholls (2006), Mair, Robinson and Hockerts (2006) as well as Steyaert and Hjorth (2006). Kerlin (2006, 2009) also made interesting attempts to compare the concept of social enterprise in different parts of the world.

In this context, the first objective of the present paper is to deepen this trans-Atlantic dialogue on social enterprise as embodied in their respective European and US contexts, as well as to underline distinct developments they now tend to experience. However, what seem really at stake beyond conceptual debates are the place and the role of social enterprise within the overall economy and its interaction with the market, the civil society and public policies. So, our second objective is to show that re-embedding social enterprises and social entrepreneurship in their own specific contexts for a better mutual understanding is one of the best ways to raise issues and suggest further lines of research which do not appear clearly when sticking to specific national or regional contexts.

The chapter is structured as follows: in the first part, we describe the different schools of thought in which those concepts took root and their respective contexts. In the second part, we carefully analyze the EMES conception rooted in the historical European third sector tradition. This analysis paves the way for the third part, in which we analyze the conceptual convergences and divergences among the different school as well as their implications for the debate.

## **1. The emergence of social enterprise in various contexts**

Let us first examine how conceptualizations of social enterprise and social entrepreneurship were shaped in the United States. Then we will be best placed to highlight the specificities of European approaches to the same notions.

### **1.1. Two major US schools of thought**

When looking at the US landscape, what is striking is the diversity of concepts which have been used since the early 1980s to describe entrepreneurial behaviours with social aims that developed in the country, mainly although not exclusively within the non-profit sector: "non-profit venture", "non-profit entrepreneurship", "social-purpose endeavour", "social innovation", "social-purpose business", "community wealth enterprise", "public entrepreneurship", "social enterprise"... Although the community of non-profit studies did use several of such terms, the conceptual debate has been mainly shaped by scholars belonging to business schools. To classify the different conceptions, Dees and Anderson (2006) have proposed to distinguish two major schools of thought. The first school of thought on social enterprise refers to the use of commercial activities by non-profit organizations in support of their mission. Organizations like Ashoka fed a second major school, named the "social innovation" school of thought.

#### ***The "earned income" school of thought***

The first school of thought set the grounds for conceptions of social enterprise mainly defined by earned-income strategies. The bulk of its publications was mainly based on nonprofits' interest to become more commercial (Young and Salamon, 2002) and could be described as "prescriptive": many of them came from consultancy firms and they focused on strategies for starting a business that would earn income in support to the

social mission of a non-profit organization and that could help diversify its funding base (Skloot, 1987). In the late 90s, the Social Enterprise Alliance, a central player in the field, defined social enterprise as "any earned-income business or strategy undertaken by a non-profit to generate revenue in support of its charitable mission".

In such a perspective, it is straightforward to name that first school the "earned income" school of thought. Within the latter however, we suggest a distinction between an earlier version, focusing on nonprofits, that we call the "commercial non-profit approach", on the one hand, and a broader version, embracing all forms of business initiatives, that may be named the "mission-driven business approach", on the other hand. This latter approach refers to the field of social purpose venture as encompassing all organizations that trade for a social purpose, including for-profit companies (Austin et al., 2006).

It should also be noted that some authors, such as Emerson and Twersky (1996), early provided an analysis shifting from a sole market orientation to a broader vision of business methods as a path towards achieving increased effectiveness (and not just a better funding) of social sector organizations. Even further, various activities undertaken by for-profit firms to assert their corporate social responsibility began to be considered, by some authors, as part of the whole range of initiatives forming the wide spectrum of social entrepreneurship (Boschee, 1995 and Austin, 2000). Of course, this raises some fundamental conceptual issues such as the following: can any social value-generating activity be considered as an expression of social entrepreneurship, even if this activity remains marginal in the firm's overall strategy?

To a large extent, the concept of social business as promoted by Muhammad Yunus (2010) can also be related to the "mission-driven business approach" although it also involves stronger conditions: "A social business is a non-loss, non-dividend company designed to address a social objective" (Yunus, 2010). This concept was mainly developed to describe a business model that focuses on the provision of goods or services to (very) poor customers, a new market segment (often called the "bottom of the pyramid") in the developing countries. The most often quoted case is the Grameen - Danone joint company which provides, at very low prices, highly nutritive yoghurt to vulnerable populations in Bangladesh. Such a social business is supposed to cover all its costs through market resources. It is owned by (often large) investors who, at least in the Yunus' version, don't receive any dividend, profits being fully reinvested to support the social mission

### ***The "social innovation" school of thought***

The second school puts the emphasis on the profile and behaviour of social entrepreneurs in a Schumpeterian perspective as the one developed by the pioneering work of Young (1986). Along such lines, entrepreneurs in the non-profit sector are "change makers" as they carry out "new combinations" in at least one the following ways: new services, new quality of services, new methods of production, new production factors, new forms of organizations or new markets. Social entrepreneurship may therefore be a question of outcomes rather than just a question of incomes. Moreover, the systemic nature of innovation brought about and its impact at a broad societal level are often underlined.

Dees (1998:4) has proposed the best known definition of a social entrepreneur in that school of thought. He sees the latter as "playing the role of change agents in the social sector by adopting a mission to create and sustain social value, recognizing and relentlessly pursuing new opportunities to serve that mission, engaging in a process of continuous innovation, adaptation and learning, acting boldly without being limited by

resources currently in hand, and finally exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created". Today, such outstanding individuals are often portrayed as heroes of the modern times (Bornstein, 2004).

Although many initiatives of social entrepreneurs result in the setting up of non-profit organizations, many recent works of the social innovation school of thought tend to underline blurred frontiers and the existence of opportunities for entrepreneurial social innovation within the private for-profit sector and the public sphere as well.

### *Social entrepreneurship at the crossroads of the two schools*

Divergences between the "social innovation" school and the "earned income" school should not be overstated, though. Viewing social entrepreneurship as a mission-driven business is increasingly common among business schools and foundations which foster more broadly business methods, not just earned-income strategies, as a path towards social innovation. Various works stress a "double (or triple) bottom line" vision which can be adopted by all types of enterprise as well as the creation of a "blended value" in an effort to really balance and better integrate economic and social purposes and strategies (Emerson, 2006).

## **1.2. The roots of social enterprise in Europe**

In Europe, the concept of "social enterprise" as such seems to have first appeared in Italy, where it was promoted through a journal launched in 1990 and entitled *Impresa sociale*. In the late 1980s indeed, new co-operative-like initiatives had emerged in this country to respond to unmet needs, especially in the field of work integration as well as in the field of personal services. As the existing legislation did not allow associations to develop economic activities, the Italian Parliament passed a law in 1991 creating a new legal form of "social cooperative" which proved to be very well adapted to those pioneering social enterprises.

The remarkable development of the latter also inspired various other countries during the following two decades, across Europe and outside the latter (for instance in South Korea). Indeed, several other European countries introduced new legal forms reflecting the entrepreneurial approach adopted by this increasing number of "not-for-profit" organizations, even though the term of "social enterprise" was not always used as such in the legislation (Defourny and Nyssens, 2008). In France, Portugal, Spain and Greece, these new legal forms were of the co-operative type. Some other countries such as Belgium, the UK and Italy (with a second law passed in 2006) chose more open models of social enterprise not just inspired by the cooperative tradition. Of course, there exists a great diversity beyond this basic dichotomy. For instance, the French and Italian legal forms could be qualified as "multi-stakeholder forms" as they bring different stakeholders (employees, users, volunteers...) to work together on a given social purpose project. The Belgian "company with a social purpose" and the Italian law on social enterprise define a label which crosses the boundaries of all legal forms and can be adopted by various types of organization (not only co-operatives and non-profit organizations, but also investor-owned organizations, for instance), provided they define an explicit social aim and that they are not dedicated to the enrichment of their members.

In the UK, the Parliament approved a law creating the "community interest company" in 2004 but two years earlier, the British government also put forward a definition of social enterprise as "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 maximize profit for shareholders and owners" (DTI 2002).

In many European countries, beside the creation of new legal forms or frameworks, the 1990s have seen the development of specific public programs targeting the field of work integration. It is clear social enterprises may be active in a wide spectrum of activities, as the "social purpose" they pursue may refer to many different fields. However, since the mid-1990s, one major type of social enterprise has been dominant across Europe, namely "work integration social enterprises" (WISEs). The main objective of work integration social enterprises is to help low qualified unemployed people who are at risk of permanent exclusion from the labour market and to integrate these people into work and society through a productive activity (Nyssens, 2006). This has even led, in several cases, to the concept of social enterprise being systematically associated with such employment creation initiatives.

Although field initiatives blossomed up across Europe, with Italian social cooperatives as an inspiring model in the early 90s, the concept of social enterprise as such did not really spread during those years. In the academic sphere, major analytical efforts were undertaken from the second part of the 90s, both at the conceptual and empirical levels, especially by the EMES European Research Network<sup>4</sup>, gathering mainly social sciences scholars. Indeed, as soon as 1996, i.e. before most of the European public policies were launched, a major research program funded by the European Commission was undertaken by a group of scholars coming from all EU member states. That group progressively has developed an approach, which we will expand in the next section, to identify organizations likely to be called "social enterprises" in each of the fifteen countries forming the EU by that time.

It should also be noted that these last years have witnessed a growing mutual influence of each side of the Atlantic upon the other, probably with a stronger influence of the US upon Europe than the other way round. More precisely, various authors from European business schools, such as Mair and Marti (2006), Mair, Robinson and Hockerts (2006) as well as Nicholls (2006) among others, contributed to the debate, relying on the concept of social entrepreneurship as it took roots in the US context, although they of course brought in their own backgrounds as Europeans. Nicholls (2006), for example, suggests a continuum to describe social entrepreneurship from voluntary activism, based on voluntary resources to corporate social innovation which is defined by venture capital targeted to a social mission. Between these opposite models, different non-profit organisations may be found on the continuum, from those fully funded by grants to those entirely self-financed. In his analysis, only the latter deserve the label of "social enterprise" in the line of the earned income school of thought.

## **2. The EMES approach of social enterprise**

In Europe, the EMES European Research Network has developed the first theoretical and empirical milestones of social enterprise analysis. The EMES approach derives from extensive dialogue among several disciplines (economics, sociology, political science and management) as well as among the various national traditions and

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<sup>4</sup> The letters EMES stand for "*EMergence des Entreprises Sociales en Europe*" – i.e. the title in French of the vast research project carried out from 1996 through 2000 by the network. The acronym EMES was subsequently retained when the network decided to become a formal international association. See [www.emes.net](http://www.emes.net)

sensitivities present in the European Union. Moreover, guided by a project that was both theoretical and empirical, it preferred from the outset the identification and clarification of indicators over a concise and elegant definition.

### **2.1. Three sets of indicators for three distinct dimensions**

Such indicators were never intended to represent the set of conditions that an organization should meet to qualify as a social enterprise. Rather than constituting prescriptive criteria, they describe an "ideal-type" in Weber's terms, i.e. an abstract construction that enables researchers to position themselves within the "galaxy" of social enterprises. In other words, they constitute a tool, somewhat analogous to a compass, which helps analysts locate the position of the observed entities relative to one another and eventually identify subsets of social enterprises they want to study more deeply. Those indicators allow identifying brand new social enterprises, but they can also lead to designate as social enterprises older organizations being reshaped by new internal dynamics.

The indicators have so far been presented in two subsets: a list of four economic indicators and a list of five social indicators (Defourny 2001, 16-18). In a comparative perspective, however, it seems more appropriate to distinguish three subsets rather than two, which allows highlighting particular forms of governance specific to the EMES ideal type of social enterprise. In doing so, we will also recognize more easily many of the usual characteristics of social economy organizations which are refined here in order to highlight new entrepreneurial dynamics within the third sector (Borzaga and Defourny, 2001).

In such a slightly reshaped EMES approach, three criteria reflect **the economic and entrepreneurial dimensions** of social enterprises:

#### ***a) A continuous activity producing goods and/or selling services***

Social enterprises, unlike some traditional non-profit organisations, do not normally have advocacy activities or the redistribution of financial flows (as, for example, many foundations) as their major activity, but they are directly involved in the production of goods or the provision of services to people on a continuous basis. The productive activity thus represents the reason, or one of the main reasons, for the existence of social enterprises.

#### ***b) A significant level of economic risk***

Those who establish a social enterprise assume totally or partly the risk inherent in the initiative. Unlike most public institutions, their financial viability depends on the efforts of their members and workers to secure adequate resources.

#### ***c) A minimum amount of paid work***

As in the case of most traditional non-profit organisations, social enterprises may also combine monetary and non-monetary resources, voluntary and paid workers. However, the activity carried out in social enterprises requires a minimum level of paid workers.

Three indicators encapsulate the **social dimensions** of such enterprises:

#### ***d) An explicit aim to benefit the community***

One of the principal aims of social enterprises is to serve the community or a specific group of people. In the same perspective, a feature of social enterprises is their desire to promote a sense of social responsibility at the local level.

#### ***e) An initiative launched by a group of citizens or civil society organizations***

Social enterprises are the result of collective dynamics involving people belonging to a community or to a group that shares a well-defined need or aim; this collective dimension must be maintained over time in one way or another, even though the importance of leadership (by an individual or a small group of leaders) must not be neglected.

***f) A limited profit distribution***

The primacy of the social aim is reflected in a constraint on the distribution of profits. However, social enterprises not only include organizations that are characterized by a total non-distribution constraint, but also organizations which - like co-operatives in many countries - may distribute profits, but only to a limited extent, thus allowing to avoid a profit-maximizing behaviour.

Finally, three indicators reflect the **participatory governance** of such enterprises:

***g) A high degree of autonomy***

Social enterprises are created by a group of people on the basis of an autonomous project and they are governed by these people. They may depend on public subsidies but they are not managed, be it directly or indirectly, by public authorities or other organisations (federations, private firms, etc.). They have both the right to take up their own position ("voice") and to terminate their activity ("exit").

***h) A decision-making power not based on capital ownership***

This criterion generally refers to the principle of "one member, one vote" or at least to a decision-making process in which voting power is not distributed according to capital shares on the governing body which has the ultimate decision-making rights.

***i) A participatory nature, which involves various parties affected by the activity***

Representation and participation of users or customers, influence of various stakeholders on decision-making and a participative management often constitute important characteristics of social enterprises. In many cases, one of the aims of social enterprises is to further democracy at the local level through economic activity.

As already underlined, these indicators can be used to identify totally new social enterprises, but they can also lead to designate as social enterprises older organizations which have been reshaped by new internal dynamics. The EMES approach proved to be empirically fertile. This has been the conceptual basis for several EMES researches, in different industries as personal services or local development (Borzaga and Defourny, 2001) or work integration (Nyssens, 2006, Davister et al., 2004), sometimes enlarged to Central and Eastern Europe (Borzaga et al., 2008). When J.-F. Draperi (2003) studied 151 organizations subsidized over a twenty-year period by France's *Fondation du Crédit Coopératif*, he found in varying degrees most of the features outlined above.

## **2.2. Paving the way to a theory of social enterprise**

In the last phase of its first major research, the EMES Network took the initial steps towards the progressive development of a specific theory of social enterprise. In such a perspective, Bacchiaga and Borzaga (2001) used tools from the new institutional economic theory to highlight the innovative character of social enterprises: the characteristics defining the social enterprise were interpreted as forming an original system of incentives that takes into account the potentially conflicting objectives pursued by the various categories of stakeholders. Evers (2001) developed a more socio-political analysis to demonstrate that such a "multi-stakeholder, multiple-goal"

structure was more easily understood if making use of the concept of "social capital". For Evers, creating social capital can also constitute an explicit objective of organizations such as social enterprises. Laville and Nyssens (2001) came up with elements for an integrated theory of an "ideal type" combining the economic, social and political dimensions of social enterprise. Like Evers, they emphasized the role of social capital, which is mobilized and reproduced in specific forms by social enterprises. In addition, they stressed the particularly hybrid and composite nature of social enterprises' resources (made of market, non-market and non-monetary resources such as volunteering), viewing this as a major asset of these organizations to resist the trend toward "institutional isomorphism" that threatens all social economy organizations. Those theoretical lines were transformed into hypotheses to be tested for work integration social enterprises through a large survey conducted in twelve EU countries (Nyssens, 2006).

Theoretically, the social enterprise concept could also point the way toward a more integrated approach to the entire social economy. As a matter of fact, when apprehending the social economy, two sources of tension appear as recurrent and difficult to overcome. One source of tension originates in the gap between enterprises offering their entire output for sale on the market (as do most co-operatives) and associations whose activities do not have a strong economic character (such as advocacy) and whose resources are totally non-market (grants, subsidies, etc.), or even non-monetary (volunteering). A second tension exists between on the one hand, so-called mutual interest organizations (co-operatives, mutual societies and a large part of associations) which, at least in principle, aim to serve their members, and on the other hand, general interest organizations, serving the broader community or specific target groups outside their membership (such as organizations fighting poverty and exclusion, or those involved in development co-operation, environmental protection and so on). However, we must not exaggerate this second tension, which reflects more of a different historical heritage between two models of action than a clear-cut difference between contemporary practices. For example, when they expand themselves, numerous mutual societies and user cooperatives offer their goods and services to customers which are not members, with similar benefits than those of the members.

These two sources of tension are partly illustrated in graph 1 hereafter. The first source of tension is represented by the coexistence of two distinct spheres: one sphere represents the co-operative tradition (which generated specific literature and schools of thought), while the other sphere represents the tradition of associative initiatives and movements (which has also inspired numerous sociologists and political scientists, especially in the North-American literature on non-profit organizations). The second source of tension is more difficult to depict: it may be seen, although partly, within each of the two spheres, where general interest organizations are rather located quite close to the diagram's centre whereas the mutual interest organizations tend to be located either on the left or on the right of the diagram (although some advocacy NPOs may of course be of general interest).

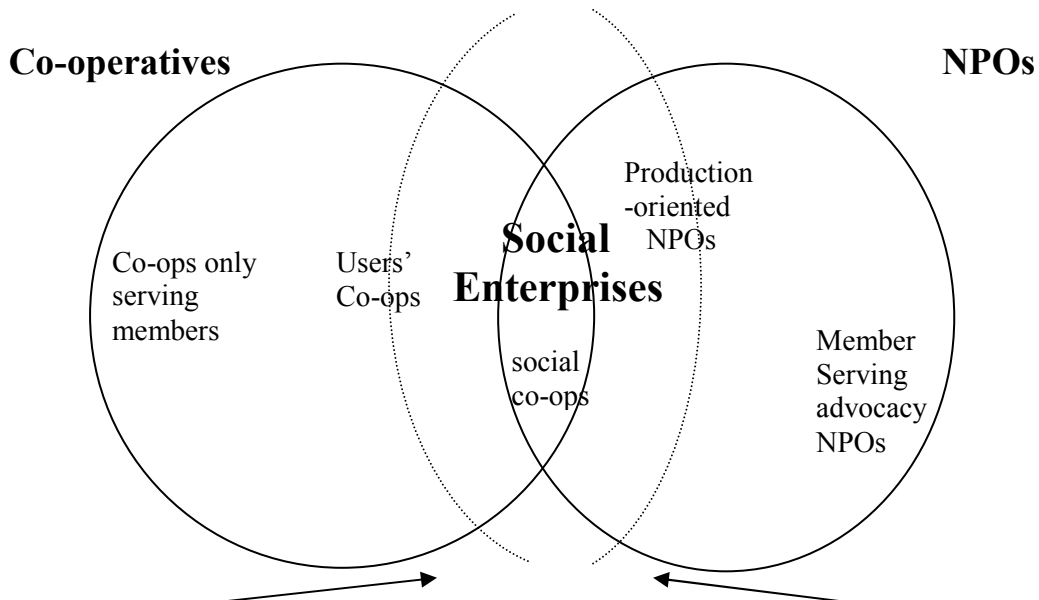
The unifying role of the social enterprise concept resides primarily in the fact that it generates mutual attraction between the two spheres. It accomplishes this by drawing certain organizations within each sphere towards the central zone and by including them into a single group of organizations because they actually are very close to each other. Whether they choose a co-operative legal form or an associative legal form depends



primarily on the legal mechanisms provided by national legislations. On the left hand (co-operative) side, social enterprises may be seen as more oriented to the whole community and putting more emphasis on the dimension of general interest than many traditional co-operatives. This is of course the case for enterprises registered as social co-operatives in Italy. On the right hand (non-profit) side, social enterprises place a higher value on economic risk-taking related to an ongoing productive activity than many traditional associations, including advocacy or grant-making organizations. Lastly, by going beyond the two spheres, the dotted lines suggest yet another point to be considered: although most social enterprises take the form of co-operatives or associations across Europe, they can also develop, as already mentioned, within the framework of other legal forms.

**Graph 1:**

***Social enterprises at the crossroads of the cooperative and non-profit sectors***



Source: Adapted from Defourny (2001:22)

### **3. European conceptions in a comparative perspective**

The different conceptions of social enterprise coexist to varying extents in most parts of the world including Europe. So we would certainly not claim the EMES approach is fully representative of the conceptual landscape in Europe. We do think however it provides quite useful lenses to identify major convergences and divergences between Europe and the United States, not only as to social enterprise conceptions but also as regards the place and role of public policies.

#### **The governance structure**

As we have seen, social enterprises are, across Europe, mainly embedded in the third

sector tradition which is itself marked by a long-lasting quest for more democracy in the economy. As a result, the governance structure of social enterprise has attracted much more attention in Europe than in the United States, as shown by the EMES approach as well as by various public policies, across Europe, promoting social enterprises. As the governance structure can be seen as the set of organisational devices that ensure the pursuit of the organisation's mission, it can be analysed along several dimensions.

#### *Autonomy of governance bodies*

First, in a typical European approach, social enterprises are characterized by a high degree of autonomy. According to the EMES definition, they are generally created by a group of people and are governed by them in the framework of an autonomous project. This condition of autonomy clearly diverges from the conception of the "Social Enterprise Knowledge Network" (launched by Harvard in Latin America), according to which a short-term project with a social value undertaken by a for-profit enterprise or a public body can be considered as a social enterprise (Austin et al., 2004: xxv).

#### *A participative dynamic*

Secondly, the ideal-typical social enterprise defined by EMES is based on a collective dynamics and the involvement of different stakeholders in the governance of the organization. The various categories of stakeholders may include beneficiaries, employees, volunteers, public authorities and donors, among others. They can be involved in the membership or in the board of the social enterprise, thereby creating a "multi-stakeholder ownership" (Bacchiega and Borzaga, 2003). Such a multi-stakeholder ownership is even recognized or required by national legislations in various countries (Italy, Portugal, Greece and France).<sup>5</sup> Stakeholders can also participate through channels that are less formal than membership, such as representation and participation of users and workers in different committees in the everyday life of the enterprise. In many cases indeed, one of the aims of social enterprises is to foster democracy at the local level through economic activity. To that extent, this approach to social enterprise remains clearly in line with the third sector literature, especially when the latter focuses on community development. Such a way to stress a collective dynamics clearly contrasts with the emphasis put on the individual profile of the social entrepreneur and his central role, especially by the social innovation school. Let us note however these two points of view are not necessarily incompatible: the importance of a strong leadership by one or several founders may also be found in truly collective dynamics<sup>6</sup>.

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<sup>5</sup> In Italian social cooperatives, workers are members of the cooperative and disadvantaged workers should be members of the B-type cooperative that employs them, if this is compatible with their situation. The statutes may also require the presence of volunteers in the membership. In Portuguese "social solidarity co-operatives", users and workers must be effective members. In French "collective interest co-operative societies", at least three types of stakeholders must be represented: workers, users and at least a third category, defined according to the project carried out by the cooperative. As to Greek social co-operatives, they are based on a partnership between individuals of the "target group", psychiatric hospital workers and institutions from the community, and such different stakeholders have to be represented in the board of the organization.

<sup>6</sup> Nicholls (2006) explains that Banks (1972), interestingly, first coined the term "social entrepreneur" while referring to management approaches inspired by values such as those promoted by Robert Owen, a major utopian widely considered as a father of... the cooperative movement.

### *Limitation to the rights of shareholders*

Thirdly, one of the EMES criteria states that the decision-making power is not based on capital ownership, again reflecting the quest for more economic democracy that characterises the field of social enterprise in Europe along with the co-operative tradition. This generally means that the organisation applies the principle of "one member, one vote", or at least that the voting rights in the governing body that has the ultimate decision-making power is not distributed according to capital shares. Once more, such rules are reflected in most legal frameworks designed for social enterprises, the majority of them requiring the rule of "one member, one vote".<sup>7</sup>

### *Constraints on profit distribution*

Fourthly, the rights of shareholders are also firmly limited regarding the appropriation of profits. Indeed, according to EMES criteria, the field of social enterprises includes organizations that are characterized by a total non-distribution constraint and organizations which may only distribute profits to a limited extent, thus avoiding a profit-maximizing behaviour. European legal frameworks also reduce the power of social enterprises' shareholders by prohibiting<sup>8</sup> or limiting<sup>9</sup> the distribution of profits. A convergence must be noted here with the US "commercial non-profit approach" (within the "earned income" school of thought) which explicitly locates social enterprise in the field of non-profit organisations, i.e. entities whose surplus is entirely retained by the organization for the fulfilment of its social mission. This is also in line with the way Yunus defines a social business as shareholders must accept not to receive any dividend. On the contrary, for the "mission-driven business approach" as well as for the "social innovation school of thought", social enterprises may adopt any kind of legal framework and may therefore distribute surplus to shareholders. It is possible here to argue such a profit distribution in some cases might put into question the primacy of social objectives: in very broad conceptions of social enterprise, the latter may include an increasing number of firms which claim to look at a double or triple bottom line (Savitz, 2006) but actual practices may reveal the economic line clearly dominate the other (social and environmental) dimensions.

To sum up these four dimensions, as Young and Salamon state, "in Europe, the notion of social enterprise focuses more heavily on the way an organisation is governed and what its purpose is rather than on whether it strictly adheres to the non-distribution constraint of a formal non-profit organisation" (2002: 433). As a matter of fact, although the EMES approach of social enterprise also includes this feature by its "limited profit distribution" criterion, it goes further than that by incorporating other aspects which are central to characterize social enterprise's governance structure and to guarantee its social

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<sup>7</sup> It is the case for the Italian "social cooperative", the Portuguese "social solidarity co-operative", the Spanish "social initiative cooperative" and the French "collective interest co-operative society". In the Belgian "social purpose company", no single person can have more than 1/10<sup>th</sup> of the total number of votes linked to the shares being represented. The Belgian social purpose company also provides for procedures allowing each employee to participate in the enterprise's governance through the ownership of capital shares.

<sup>8</sup> In Portuguese "social solidarity co-operatives" and Spanish "social initiative cooperatives", any distribution of profit is forbidden.

<sup>9</sup> Distribution of profit is limited by strong rules in Italian "social cooperatives" and Belgian "social purpose companies". The British "community interest company" includes an asset lock which restricts the distribution of profits and assets to its members; the dividend payable on the shares is subject to a cap set by the regulator.

mission, whereas the other schools do not underline so much organizational features as key tools to maintain the primacy of the social mission<sup>10</sup>.

### **The concept of economic risk**

Social enterprises are generally viewed as organizations characterized by a significant level of economic risk.

According to EMES criteria, this means that the financial viability of social enterprises depends on the efforts of their members to secure adequate resources for supporting the enterprise's social mission. These resources can have a hybrid character: they may come from trading activities, from public subsidies or from voluntary resources.<sup>11</sup> Although the public opinion tends to associate the concept of economic risk to a market orientation, rigorous definitions, including for instance definitions in EU legislation, see an enterprise as an organization or an undertaking bearing some risk but not necessarily seeking sole market resources.

This conception appears to be shared to a large extent by the "social innovation" school of thought. Indeed, according to Dees (1998), the centrality of the social mission implies a very specific mix of human and financial resource, and social entrepreneurs explore all types of resources, from donations to commercial revenues. Bearing economic risks does not necessarily mean that economic sustainability must be achieved only through a trading activity; it rather refers to the fact that those who establish the enterprise assume the risk of the initiative.

By contrast, for the "commercial non-profit approach" and "mission-driven business approach" (forming together the "earned income" school of thought), to be a social enterprise means relying mainly on market resources. For the authors belonging to this school, the economic risk tends to be correlated with the amount or the share of income generated through trade. This vision is shared by some public policies, which tend to require a market orientation from social enterprises. In the United Kingdom, for example, social enterprises are seen first and foremost as businesses (see above). The Finish Act on social enterprise and the social economy program in Ireland also describe these organisations as market-oriented enterprises. Many Italian social cooperatives are financed through contracts which are passed with the public authorities in a more or less competitive market.<sup>12</sup>

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<sup>10</sup> Such a European specificity seems to be increasingly acknowledged at the level of the whole European Union: in November 2011, the European Commission organized a Conference to prepare a Social Business Initiative and the « Communication » it issued to serve as a basis explicitly states that « a social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities ». A bit further, it is also stated that the Commission uses the term « social enterprise » (and « social business » with the same meaning) to cover types of businesses for which the social or societal objective is the reason for the commercial activity, where profits are mainly reinvested with a view to achieving this social objective and where the method of organization or ownership reflects their mission, using democratic or participatory principles or focusing on social justice (European Commission, 2011)

<sup>11</sup> For an empirical analysis of the resource mixes in European work integration social enterprises, see Gardin (2006).

<sup>12</sup> Such a market orientation is also clear in the above-mentioned Communication of the European Commission which is by the way explicitly related to the Single Market Act. However, the Commission

The divergence between the "social innovation" school and the "earned income" school as to the economic risk should not be overstated, though. Viewing social entrepreneurship as a mission-driven business is increasingly common among business schools and foundations which foster more broadly business methods, not just earned-income strategies, for achieving social impacts. In this last perspective, we are coming back to the efforts made by Dees and Anderson (2006) and Emerson (2006) among others to stress converging trends between both major US schools, at least in parts of the academic debate.

### **The production of goods and services and their relation to the social mission**

In a rather classical way, most approaches use the term enterprise to refer to the production of goods and/or services. Accordingly, social enterprises, unlike some non-profit organizations, are normally neither engaged in advocacy, at least not as a major goal, nor in the redistribution of financial flows (as, for example, grant-giving foundations) as their major activity; instead, they are directly involved in the production of goods or the provision of services on a continuous basis.<sup>13</sup>

However, differences appear between the various schools of thought when considering the nature of this production activity. When speaking of social enterprise in Europe, it appears that the production of goods and/or services does itself constitute the way in which the social mission is pursued. In other words, the nature of the economic activity is closely connected to the social mission: for instance, the production process involves low-qualified people if the goal is to create jobs for that target group; if the social enterprise's mission is to develop social services, the economic activity is actually the delivery of such social services, and so on. This type of approach is also found in the social innovation school, which considers that social enterprises implement innovative strategies to tackle social needs through the provision of goods or services. Although the innovating behaviour may only refer to the production process or to the way goods or services are delivered, it always remains linked to the latter, the provision of such goods or services therefore representing the reason, or one of the main reasons, for the existence of the social enterprise.

By contrast, for the "commercial non-profit approach", the trading activity is often simply considered as a source of income, and the nature of the traded goods or services does not really matter as such. So, in this perspective, social enterprises can develop business activities which are only related to the social mission through the financial resources they help to secure. More precisely, it is common for a US non-profit to establish a separate business entity under its control, to generate revenue from sales. Only this latter entity can then be labelled as a social enterprise.

### **Channels for the diffusion of social innovation**

#### *The key role of public policies*

In the European context, the process of institutionalization of social enterprises has often been closely linked to the evolution of public policies. Following authors like DiMaggio and Powell (1983), objectives and practices of organizations are partly shaped by external environment, including regulations under which they operate. Such a

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acknowledges the fact such a market orientation should be considered broadly as public procurement is an important source of incomes for many social enterprises and EU legislations on state aids need to be reconsidered in various cases of provision of social or local services by social enterprises.

<sup>13</sup> We are aware of the possibility to argue that advocacy nonprofits may also be described, to a certain extent, as service providers.

perspective however neglects an essential dynamic of social enterprises: relationships the latter have with public policies are not one-sided: social enterprises are not just residual actors filling gaps of the market or the State. In fact, social enterprises significantly influence their institutional environment, and they contribute to shaping institutions including public policies.

For example, social enterprises were pioneers in promoting the integration of excluded persons through a productive activity. A historical perspective shows that they have contributed to the development of new public schemes and legal frameworks, which in turn became channels for social innovation. The conditions imposed to social enterprises by the different European legal frameworks can be seen as signals often first created by social enterprises themselves and furthermore as guarantees that allow governments to provide financial support to social enterprises. Without such guarantees (often involving a strict non-distribution constraint), the risk would be greater that public subsidies just induce more profits to be distributed among owners or managers. In turn, such public support often allows social enterprises to avoid purely market-oriented strategies, which, in many cases, would lead them away from those who cannot afford market prices and nevertheless constitute the group that they target in accordance with their social mission

#### *The support of foundations*

In other contexts, such as the United States, the scaling up of social innovation has also been a concern from the outset, especially for the "social innovation" school of thought, historically led by Ashoka. However, social innovation in the US is typically expected to expand through the growth of the enterprise itself<sup>14</sup> and/or with the support of foundations. Such ways to grow include social venture capital bringing a leverage effect to the initiative through increased financial means and professional skills as well as celebration and demonstration strategies, through some success stories, of social entrepreneurs (Bornstein, 2004). Public policies could also play a role but the recent initiative of Obama to create a Social Innovation Fund to boost the best achievements of the non-profit sector rather appears, in the US, as an exception across the last decades.

## **Conclusion**

Even if all practices encompassing social entrepreneurship and social enterprises are not new, these concepts are on the rise. As we have seen, this field is characterized by a wide diversity from a point of view of organizational models, industries and geographical areas. The diversity and openness of the concept are probably some of the reasons for its success the debate is now on both the public and the private agenda. Indeed, both the public sector and the private sector, each one in its own way, are discovering or rediscovering new opportunities to promote, simultaneously, entrepreneurial spirit and the pursuit of the public good.

The perspective we have adopted in this chapter suggests that the various conceptions of social enterprise and social entrepreneurship are deeply rooted in the social, economic, political and cultural contexts in which such dynamics take place. This implies that supporting the development of social enterprise cannot be done just through exporting US or European approaches.<sup>15</sup> Unless they are embedded in local contexts, social

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<sup>14</sup> A key example, often referred to, is provided by the Grameen Bank, which underwent a remarkable growth before it inspired other microfinance initiatives across the world.

<sup>15</sup> For instance, when collaborating with the UNDP to analyze the potential for promoting social

enterprises will just be replications of formula that will last only as long as they are fashionable. However, international comparisons can prove to be a fertile source of mutual questioning and can help to identify major challenges social enterprise has to face.

Each context produces specific debates. In the US context, the strong reliance on private actors might result from a kind of implicitly shared confidence in market forces to solve an increasing part of social issues in modern societies. Even if various scholars stress the need to mobilize various types of resources, it is not impossible that the current wave of social entrepreneurship may act as a priority-setting process and a selection process of social challenges deserving to be addressed because of their potential in terms of earned income. This type of questioning is also increasingly relevant in the European context, particularly in countries where the logic of privatization and marketization of social services are more developed. In the European context, strict regulations and direct intervention of public authorities in the field of social enterprises might reduce the latter to instruments to achieve specific goals which are given priority on the political agenda, with a risk of bridling the dynamics of social innovation.

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