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Social Enterprise

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1. Historical backgrounds

Field organizations, corresponding to what is now called “social enterprises,” have existed since well before the mid-1990s when the term began to be increasingly used in both Western Europe and the United States. Indeed, the third sector, be it called the non-profit sector, the voluntary sector or the social economy (which includes cooperatives according to a European tradition), has long witnessed entrepreneurial dynamics which resulted in innovative solutions for providing services or goods to persons or communities whose needs were neither met by private companies nor by public providers. However, for reasons which vary according to specificities of national or regional contexts, the concept of social enterprise is now gaining a fast growing interest across the world along with two closely related terms, namely “social entrepreneur” and “social entrepreneurship”.

1.1. Western 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, Nyssens, 2010).

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. 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. This has even led, in several cases, to the concept of social enterprise being systematically associated with such employment creation initiatives.

1.2. The United States

In the US, the first root regarding the debate on social entrepreneurship and social enterprises refers to the use of commercial activities by non-profit organizations in support of their mission (Kerlin, 2009). Although such behaviour can be traced back to the very foundation of the US, when community or religious groups were selling homemade goods or holding bazaars to supplement voluntary donations, it gained a particular importance in the specific context of the late 1970s and 1980s. The downturn in the economy in the late 1970s led to welfare retrenchment and to important cutbacks in federal funding. Nonprofits then began to expand their commercial activities to fill the gap in their budget through the sale of goods or services not directly related to their mission.

Based on a broader vision of entrepreneurship, the second root of this debate can be traced back to B. Drayton and Ashoka, the organization he founded in 1980, as its primary driving forces. The mission of Ashoka was (and still is) to identify and support outstanding individuals with pattern setting ideas for social change. Ashoka focuses on the profiles of very specific individuals, first referred to as public entrepreneurs, able to bring about social innovation in various fields, rather than on the forms of organisation they might set up. Various foundations involved in "venture philanthropy", such as the Schwab Foundation and the Skoll Foundation, among others, have embraced the idea that social innovation is central to social entrepreneurship and provide support to social entrepreneurs.

2. Major conceptualizations of social enterprise and social entrepreneurship

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 early identified trends towards commercialization, the bulk of this conceptual debate has been 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 entrepreneurship 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.

Although field initiatives blossomed up across Europe, the concept of social enterprise as such did not really spread until the late 90s. In the academic sphere however, 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, gathering mainly social sciences scholars, especially economists and sociologists.

We now focus on those three conceptual approaches while witnessing 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 Nicholls (2006) and Mair, Robinson, Hockerts (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.

2.1. 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 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.

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". Such a market-oriented conception of social enterprise crossed the ocean when a "Social Enterprise Unit" was created by the UK government to promote social enterprise across the country. Although no reference was made to the percentage of market resources in the definition adopted by the Social Enterprise Unit or in the Community Interest Company (CIC) law, it is widely accepted that a significant part (usually 50% or more) of the total income must be market-based for an organization to qualify as a "social enterprise".

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 also 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).

2.2. The "*social innovation*" school of thought

This second school puts the emphasis on social entrepreneurs in the Schumpeterian meaning of the term, in a perspective similar to that adopted earlier 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 areas: 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 and social impact rather than 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 social entrepreneurs. 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".

Although many initiatives of social entrepreneurs result in the setting up of non-profit organizations, most recent works of this school 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. By the way, the concept of social entrepreneurship is increasingly described as a very wide spectrum and often appears as the broadest of the three "SE concepts".

The divergence 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. Recent works increasingly stress a "double bottom line" vision 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).

2.3. The EMES European approach of social enterprise

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. Named the EMES European Research

Network,¹ that group first devoted itself to the definition of a set of criteria to identify organizations likely to be called "social enterprises" in each of the fifteen countries forming the EU by that time.

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 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 (Borzaga, Defourny, 2001:16-18).

Four criteria reflect the economic and entrepreneurial dimensions of social enterprises:

- *a continuous activity producing goods and/or selling services;*
- *a high degree of autonomy;*
- *a significant level of economic risk;*
- *a minimum amount of paid work.*

Five other indicators encapsulate the social dimensions of such enterprises:

- *an explicit aim to benefit the community;*
- *an initiative launched by a group of citizens;*
- *a decision-making power not based on capital ownership;*
- *a participatory nature, which involves various parties affected by the activity;*
- *a limited profit distribution.*

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 the researchers 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 economic and social 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.

While stressing a social aim embedded in an economic activity as in the two previous schools, the EMES approach differs mainly from them by stressing specific governance models (rather than the profile of social entrepreneurs) which are often found in European social enterprises and may be analysed in a twofold perspective. First, a democratic control and/or a participatory involvement of stakeholders reflect a quest for more economic democracy inside the enterprise, in the line of the tradition of cooperatives which represent a major component of the third sector/social economy in most European traditions. Combined with constraints on the distribution of profits, it can be viewed as a way to protect and strengthen the primacy of the social mission in the

¹ 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

organization. Secondly, those two combined guarantees also act as a "signal" allowing public authorities to support social enterprises and the scaling up of social innovation in various ways (legal frameworks, public subsidies, fiscal exemptions, etc.). 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 first research carried out by the EMES network also presented an initial attempt to outline a theory of social enterprise: an "ideal-typical" social enterprise could be seen as a "multiple-goal, multi-stakeholder and multiple-resource enterprise" (Borzaga, Defourny, 2001). These theorised features paved the way for another major research program. Although social enterprises are active in a wide variety of fields, including personal social services, urban regeneration, environmental services, and the provision of other public goods or services, EMES researchers decided to focus on work integration social enterprises (WISEs), with a view to allowing meaningful international comparisons. On such a basis, they made an inventory of the different existing types of social enterprise in the field of on-the-job training and work integration of low-qualified persons in order to test empirically the ideal-typical social enterprise (Nyssens, 2006).

To conclude, it clearly appears that the distinctive conceptions and concrete expressions of social enterprise and social entrepreneurship are deeply rooted in the social, economic, political and cultural contexts in which these organizations emerge. Each context produces specific debates. In the US context, the strong reliance on private actors could 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. In the European context, the key role of public bodies in the field of social enterprises may reduce them to instruments to achieve specific goals which are given priority on the political agenda, with a risk of bridling the dynamics of social innovation.

All this means supporting the development of social enterprise cannot be done just through exporting US or European approaches. Unless they are embedded in local contexts, social enterprises will just be replications of formula that will last only as long as they are fashionable.

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