

THE SOCIAL ENTERPRISE SECTOR: A CONCEPTUAL FRAMEWORK

Social Enterprises

Social enterprises have developed from and within the social economy sector, which lies between the market and the State and is often associated with concepts such as ‘third sector’ and ‘non-profit sector’. In fact the distinctive organisational forms that social enterprises adopt depend on the existing legal frameworks, on the political economy of welfare provision and on the cultural and historical traditions of non-profit development in each country. As a result, the social enterprise sector today includes both new typologies of organisations and traditional third sector organisations re-fashioned by a new entrepreneurial dynamic. In this respect, the social enterprise concept does not seek to replace concepts of the non-profit sector or social economy. Rather, it is intended to bridge these two concepts, by focusing on new entrepreneurial dynamics of civic initiatives that pursue social aims.

Social enterprises are organisations that take different legal forms across OECD countries to pursue both social and economic goals with an entrepreneurial spirit. Social enterprises typically engage in delivery of social services and work integration services for disadvantaged groups and communities, whether in urban or rural area. In addition, social enterprises are also emerging in the provision of community services, including in the educational, cultural and environmental fields.

From a cross-country perspective, it is possible to identify a set of key economic and social elements that help define social enterprises across national differences:

Economic Criteria:

- 1) Unlike traditional non-profit organisations, social enterprises are *directly engaged in the production and/or sale of goods and services* (rather than predominantly advisory or grant-giving functions)
- 2) Social enterprises are voluntarily created and managed by groups of citizens. As a result, while they may receive grants and donations from public authorities or private companies, social enterprises *enjoy a high degree of autonomy* and shareholders have the right to participate (‘voice’) and to leave the organisation (‘exit’);
- 3) The financial viability of social enterprises depends on the efforts of their members, who are responsible for ensuring adequate financial resources, unlike most public institutions. Social enterprises therefore involve *a significant level of economic risk*;
- 4) Activities carried out by social enterprises require a *minimum number of paid workers*, even if they may combine voluntary and paid workers.



Social criteria:

- 5) Social enterprises are the result of *an initiative by citizens* involving people belonging to a community or to a group that shares a certain need or aim. They must maintain this dimension in one form or another
- 6) Decision making rights are shared by stakeholders, generally through the principle of 'one member, one vote'. Although capital owners in social enterprises play an important role, *decision-making power is not based on capital ownership*;
- 7) Social enterprises are *participatory in nature*, insofar as those affected by the activities (the users of social enterprises' services) are represented and participate in the management of activities. In many cases one of the objectives is to strengthen democracy at local level through economic activity;
- 8) Social enterprises include organisations that totally prohibit the distribution of profits and organisations such as co-operatives, which may distribute their profit only to a limited degree. Social enterprises therefore avoid profit maximising behaviour, as they involve a *limited distribution of profit*.
- 9) Social enterprises pursue *an explicit aim to benefit the community* or a specific group of people. By doing so, they directly and indirectly promote a sense of social responsibility at local level.

Rationale for social enterprise development

The emergence of social enterprises, and the range of goods and services they produce, has evolved against the institutional backdrop of welfare states reforms towards a mixed economy of private, public and third sector providers.

In this framework, social enterprises have emerged as an effective tool to deliver policy objectives in two key areas of social and economic policy: service delivery and social inclusion.

- a) *Service delivery*. Social enterprises may operate in the provision of welfare services to specific groups of individuals or within a spatially defined community. The participatory nature of social enterprises presents distinctive advantages in its capacity to engage stakeholders in the design and delivery of services, contribute non-monetary resources, identify gaps in service provision and pioneer new services leading to social cohesion.
- b) *Social inclusion*. Recent forms of social enterprises facilitate social inclusion through workforce integration of marginalised people (eg. long term unemployed, disabled, minorities, etc) by combining training and skills development through temporary and/or permanent employment in a business with social dimension that trades in the market.

While service delivery and social inclusion remain the dominant rationales for support to social enterprise development, an enabling environment for social enterprises can represent a viable tool to consolidate civil society engagement in the design and delivery of services.



- c) *Civil society development.* Social enterprises can support the financial and regulatory sustainability of civil society initiatives aimed at supporting disadvantaged groups. Social enterprises can represent a strategy for civil society organisations to mobilize community resources, foster active citizenship and develop partnerships for social innovation.

Support Policies

OECD experience shows that, while the social enterprise sector presents distinct national features, it is possible to identify a number of similarities and policy trends in developing and consolidating the capacity of social enterprises to deliver policy goals at national and regional level. These include:

1. Regulatory efforts to consolidate and recognise organisational forms that compose the social enterprise sector. As new forms of social enterprises develop in specific sectors, efforts to provide legal frameworks that allow for some flexibility in meeting emerging needs and interests are a common trend across countries.
2. The need to provide adequate support services, including access to finance, knowledge sharing and business support services, whether provided by autonomous sector organisations, CDFIs, RDAs or other relevant organisations and institutions.
3. Social enterprises have increasingly developed autonomous sector organisations and territorial networks as a way of facilitating collective responses to the needs and opportunities of the sector. Among other things, networks can facilitate productive alliances, foster human resource development, leadership and knowledge dissemination.
4. The need to foster research capacity on the sector's contribution to national and sub-national policies. The collection of both quantitative and qualitative data and analyses on social enterprises and their contribution to public policy within and across countries is a necessary tool for improved policy and strategy making.