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## Are Social Enterprises Different?

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Over the past decade, much has been made of the growth in the number of social enterprises – businesses with primarily social or environmental aims – as an organisational form (c.f. Teasdale et al, 2013; Kerlin 2010). This is not limited to the UK nor to Europe. Such growth has been discussed in relation to the aftermath of the global financial crisis, even allowing for politically motivated definitional changes (Teasdale et al, 2013). Calls to ‘do capitalism differently’ have continued since the financial crisis, with recent social activism typified by the Extinction Rebellion movement, indicating that market failure associated with the environment and long-term social problems are neither being dealt with by the market nor political systems that focus on the short-term (Economist, 2019). Social enterprise has been touted as the solution to some aspects of such failure and yet much of the early academic literature debated exactly what determined social enterprise status. Empirical analysis of performance, longevity and success will be at best partial and at worst confused without a clear understanding of which enterprises are social and indeed whether this matters or not. This review summarises the dominant arguments in the social enterprise literature and looks at the direction for future research.

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### Background

Broadly social enterprises may be defined as business organisations with a social and/or environmental purpose. However, the lack of a clear and agreed definition has hindered research progression. The extent to which social enterprises are a new phenomenon or whether they are more a re-classification of existing organisational entities is a moot point (Scheuerle et al, 2015) and lines are becoming increasingly blurred. Co-operatives, for example, are a familiar organisational form that could be included in a definition of social enterprises and have their roots in the Victorian era. While business organisations have become more complex as they seek to incorporate social responsibility into their mission, some scholars have explored the growth of ‘hybrid’ organisations (Docherty et al, 2014). Definitions are thus abundant but the debate has arguably created a false dichotomy resulting in much of the existing literature being restricted to case study and conceptual studies as scholars grapple with the variety and scope of social enterprise.

The advantages of social enterprises compared to other organisational forms are thought to stem from corrections of market failures through the use of market mechanisms. In an economy that favours a smaller state sector, social enterprises offer an alternative model for the provision of non-market services and thus, social enterprises are appealing to different political philosophies. Compared to charities, social enterprises are perceived as being more sustainable through their market-based activities. While in comparison to for-profit organisations, they are able to take a longer term, more holistic and inclusive perspective to market activity.

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## Evidence

In the UK alone, it is evident that there has been considerable growth in social entrepreneurship (SEUK, 2017). Social enterprises are estimated to account for 3% of UK GDP (£50bn) and 5% of UK employment (2 million) but official government estimates are somewhat more modest, accounting for £24bn of GDP in 2017. In terms of the reach of social enterprises; they cover sectors from retail to education (SEUK, 2017), contributing to the delivery of private and traditionally public sector activities. While largely dominated by micro enterprises and SMEs, a number of high-profile social enterprises exceed the usual employment thresholds. Social enterprises often deal with local issues but sometimes operate in the global economy. In short, based on characteristics alone, it can often be difficult to differentiate social enterprises from their purely for-profit counterparts.

Empirical analysis of social enterprise behaviour is less comprehensive in part because of the challenge of identifying them. Attempts to conceptualise social enterprises have identified the importance of institutional factors (Kerlin, 2013; Munroe-White et al, 2015). In the case of the UK, the formally recognised definition of a social enterprise was developed by the Cabinet Office (2013) and comprises of three key components:

- Not more than 50% profits being returned to shareholders or owners, with surpluses being reinvested;
- Not more than 75% of income to be derived from grant or donation income, and
- At least 25% of income should be derived from sales.

An important source of survey data in the UK is the Small Business Survey. Here organisations are asked whether they consider themselves to be social enterprises as well as whether they meet the Cabinet Office definition. Other data are collected by Social Enterprise UK from their membership. These suggest that the SBS underestimates social enterprise because it does not include firms with more than 250 employees (SEUK, 2018).

However, the lines between organisational type are recognised as being increasingly blurred as initially there was not a legal entity category associated with it and existing evidence suggest that context matters. Eldar (2017) identifies social enterprises as a form of hybrid enterprise, as does Docherty et al (2014). Bull (2007) argues that such organisations lie on a spectrum of profit versus social focus. The EMES research network (Defourny and Nyssens, 2017) has provided an overarching framework of research for social enterprise which has generated a co-ordinated global body of work under the ICSEM (International Comparative Social Enterprise Models) project. They focus on three points of triangulation in which all organisations exist, organisations that are focused on: (a) capital interest (where for-profit), (b) general interest, and (c)

mutual interest. Thus, for-profit organisations are located closer to capital interest and cooperatives closer to mutual interest.

From a theoretical perspective, Glaeser and Scheifer (2001) focus on the decision-making process when setting up a social enterprise. Entrepreneurs may commit to social entrepreneurship to signal to prospective consumers their commitment to quality in the face of incomplete contracts and asymmetric information. Their social entrepreneurship status acts as a quality guarantee where quality can in reality only be assured *ex-post*, in the case of childcare or care homes, for example. In an empirical test of this, Jones et al (2016) explore the extent to which not-for-profit status offers a form of correction for asymmetric information in the US care homes sector and note that with the publication of quality indicators in time not-for-profit care homes are likely to move into the for-profit sector. This supports the theory developed by Glaeser and Scheifer (2001).

More recent theoretical work by Besley and Ghatak (2017) acknowledges the market failure that drives the existence of social enterprises whereby prices are failing to truly reflect costs and benefits and social values and not reflected in profit-driven action. Besley and Ghatak (2017) develop a theoretical model which focuses on the role of managers with values aligned to the mission of the firm/owner. The more aligned their motivations, the greater the likelihood of high levels of effort in social enterprises. The key finding of their theory is that social enterprises are a stable market actor in a competitive market. This is in contrast to many earlier theoretical arguments, which Borzaga et al (2011) argues treat social enterprises as transitional organisations.

Table 1 presents information on the different typologies of social enterprises from a number of recent studies. It is apparent that there is no clear agreement on precisely the nature of the dimensions of social enterprise but general consensus in the triangulation between profit-social-environmental drivers.

**Table 1: Summary of recent social enterprise typologies**

Study authors	Year	Country coverage	Typology
Alter	2007	Latin America	<ul style="list-style-type: none"> <li>• Mission orientation</li> <li>• Nature of target markets</li> <li>• Degree of business activities in social programmes</li> </ul>
Spear et al	2009	UK	<ul style="list-style-type: none"> <li>• Mutuals (meeting the need of a group)</li> <li>• Trading charities (mission driven)</li> <li>• Public sector spin-offs (operational)</li> <li>• New social enterprises</li> </ul>
Kerlin	2013	30 countries	<ul style="list-style-type: none"> <li>• Civil society model               <ul style="list-style-type: none"> <li>○ Factor-driven</li> <li>○ Efficiency-driven</li> <li>○ Innovation-driven</li> </ul> </li> </ul>
Defourny and Nyssens (ICSEM)	2017	European	<ul style="list-style-type: none"> <li>• General Interest</li> <li>• Mutual Interest</li> <li>• Capital Interest</li> </ul>
Beckmann	2018	NA	<ul style="list-style-type: none"> <li>• External social corporation</li> <li>• Fair wage social corporation</li> <li>• Worker integration social corporation</li> <li>• Consumer social corporation</li> </ul>

Munroe-White et al (2015) extend the macro-institutional framework developed by Kerlin (2013), testing it empirically using Global Entrepreneurship Monitor (GEM) data combined with World Economic Forum (Global Competitiveness Index) economic data and GLOBE cultural data. They report that 47% of the variation in social enterprise type is accounted for by country differences but find less clear support for the influence of the strength of civil society on the size of social enterprise. Their empirical analysis highlights the challenge of using data from multiple sources with different methodologies.

A recent paper by Beckmann (2019) extends standard microeconomic analysis of profit maximisation to test the extent to which social enterprises may or may not result in allocative efficiency. Beckmann focuses on approaching social enterprises from a traditional neoclassical perspective, arguing that the chief characteristics used in categorising organisational forms are (a) ownership (b) control and (c) objectives. When approached through this lens, he presents the theoretical model demonstrating that in most cases, social enterprises have the potential to be as efficient as for-profit organisation. The exception is in the case of the worker integration social enterprise.

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## Summary and evidence gaps

The growth in social entrepreneurship over the past decade is not in dispute and it is evident that this has been a global phenomenon that spans many industrial sectors. Social enterprises offer an alternative model to the for-profit organisations; one which will allow for environment and societal market failures to be addressed while offering a more sustainable and potentially efficient allocation of resources. Thus far, it would appear that a disproportionate amount of the literature has been devoted to defining what a social enterprise actually is but in reality, this will be influenced by institutional and political frameworks in operation as well as changing patterns over time. Finding a single definition that is appropriate across countries is still elusive and it is likely that social enterprises exist on some continuum combining some element of charity as well as for-profit organisations. In terms of characteristics, it is not clear that social enterprises differ dramatically from purely for-profit organisations; spanning different sectors and size categories as well as having diversity in social or environmental aims. Problems with identification and definition hinder quantitative analysis but in-roads are now being made (Munroe-White, 2015; Beckmann, 2018; Defourny et al, 2018).

Recent developments in the more economically-focused literature offer a way forward for additional microeconomic analysis of organisational performance, despite the contested nature of what a social enterprise is, but data on social enterprises tends to patchy, as it is often self-declared. Moreover, reliance on 'organisational type' classification (such as Community Interest Company) may not provide a solution, given overlaps between different organisational statuses and the complexities of modern organisations.

What appears to be clear is that a decade on from the global financial crisis, social enterprises seem to be holding firm, experiencing a growth in numbers, diversification of purpose and extending their influence. The extent to which these organisations behave fundamentally differently to purely-for-profit organisations, as defined by traditional economic metrics, has still not been comprehensively established. Quantitative data, such as the Small Business Survey or the GEM may offer us a way of evaluating whether social enterprises are indeed substantively different from purely

for-profit organisations. However, new forms of data, such as administrative data from tax records could provide a stimulus to further research on this subject.

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