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## The EMES approach of social enterprise in a comparative perspective

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## INTRODUCTION

Most of those who were using the notions of social entrepreneurship and social enterprise twelve years ago today share the feeling they would have been totally unable to foresee the outstanding interest such concepts are now attracting. Indeed, the use of the latter is now spreading in most regions of the world: after a first decade of literature development on both sides of the Atlantic since the late 1990s, research communities are emerging in Eastern and Central Europe (Borzaga *et al.* 2008), in most countries of Eastern Asia, including China (Defourny and Kuan 2011), in India, Australia, Israel and in several Latin American countries.

In Europe, the concept of social enterprise made its first appearance in the very early 1990s, at the heart of the third sector. According to a European tradition (Evers and Laville 2004), the third sector brings together cooperatives, associations, mutual societies and, with increasing frequency, foundations - or, in other words, all not-for-profit private organisations; such a third sector is labelled the "social economy" in some European countries. More precisely, the impetus was first an Italian one and was closely linked with the cooperative movement: in 1991, the Italian Parliament passed a law creating a specific legal form for "social cooperatives" and the latter went on to experience an extraordinary growth.

The concept of social enterprise, which includes social cooperatives as one model among others, does not compete at all with the concept of social economy. It rather helps to identify entrepreneurial dynamics which are at work at the very heart of the third sector, within the various European socio-economic contexts. Such a perspective has been broadly endorsed by the European Commission when it launched a top-level Conference in November 2011 to present its "Initiative" to create "a favourable climate for social enterprises, key stakeholders in the social economy and innovation" (European Commission 2011).

In the United States, the concepts of social entrepreneurship and social enterprise also met with a 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. A first stream in the debate on social entrepreneurship and social enterprises refers to the use of commercial activities by non-profit organisations in support of their mission (Kerlin 2006). Based on a broader vision of entrepreneurship, a second stream of this debate can be traced back to B. Drayton and to Ashoka, the organisation he founded in 1980. Ashoka focuses on the profiles of very specific individuals, first referred to as "public entrepreneurs", who are 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, have embraced the idea that social innovation is central to social entrepreneurship and have supported social entrepreneurs.

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; Galera and Borzaga 2009).

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 *et al.* (2006) and 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 transatlantic dialogue between social enterprise debates as embodied in their respective European and US contexts, as well as to underline distinct developments they now tend to experience. However, what seems really at stake, beyond conceptual debates, is the place and the role of social enterprise within the overall economy and its interaction with the market, the civil society and public policies. In this perspective, our second objective is to show that re-embedding social enterprises and social entrepreneurship in their own specific contexts, with a view to achieving better mutual understanding between the European and the US schools of thought, 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.

Our analysis 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 analyse the EMES conception, which is rooted in the historical European third sector tradition. This analysis paves the way for the third part, in which we analyse the conceptual convergences and divergences among the different schools as well as their implications for the debate. In a last section, we consider how these various schools have influenced the debate in various parts of the world.

## **1. THE EMERGENCE OF SOCIAL ENTERPRISE IN VARIOUS CONTEXTS**

We will first examine how conceptualisations of social enterprise and social entrepreneurship were shaped in the United States; we will then be in the best position 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 the 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 these 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, already briefly mentioned here above. The first school of thought on social enterprise refers to the use of commercial activities by non-profit organisations in support of their mission. Organisations 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 such publications 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 organisation and that could help diversify its funding base (Skloot 1987). In the late 1990s, 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 to establish a distinction between an earlier version, focusing on non-profits, and which we call the "commercial non-profit approach", on the one hand, and a broader version, embracing all forms of business initiatives, and which could 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 organisations 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) for social sector organisations. Some authors went even further and began to consider various activities undertaken by for-profit firms to assert their corporate social responsibility as part of the whole range of initiatives forming the wide spectrum of social entrepreneurship (Boschee 1995; 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, which constitute a new market segment (often called the "bottom of the pyramid") in developing countries. 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 Yunus' version, do not receive any dividend, profits being fully reinvested to support the social mission. 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.

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

The second school puts the emphasis on the profile and behaviour of social entrepreneurs in a Schumpeterian perspective, such 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 of the following ways: new services, new quality of services, new methods of production, new production factors, new forms of organisations 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 the 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, recognising 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". Such outstanding individuals are often portrayed today as heroes of the modern times (Bornstein 2004).

Although many initiatives of social entrepreneurs result in the setting-up of non-profit organisations, various 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.

Moreover, divergences between the "social innovation" school and the "earned income" school should not be overstated. Viewing social entrepreneurship as a mission-driven business is increasingly common among business schools and foundations, which now

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 cooperative-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 - namely that 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, both across and beyond Europe (for instance South Korea). Indeed, several other European countries introduced new legal forms reflecting the entrepreneurial approach adopted by this increasing number of "not-for-profit" organisations, 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 cooperative 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 inspired exclusively 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 characterised as "multi-stakeholder forms" as they bring different stakeholders (employees, users, volunteers...) to work together on a given social purpose project. The Belgian law on "social purpose companies" 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 organisations (not only cooperatives and non-profit organisations, but also investor-owned organisations, for instance), provided they define an explicit social aim and 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; two years earlier, the British government had 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 maximise 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 that 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 these 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 dominance of WISEs in the social enterprise landscape has even led, in several cases, to the concept of social enterprise being systematically associated with such employment creation initiatives.

Although field initiatives blossomed across Europe, with Italian social cooperatives as an inspiring model in the early 1990s, the concept of social enterprise as such did not really spread during those years. In the academic sphere, major analytical efforts were first undertaken from the second part of the 1990s onwards, both at the conceptual and empirical levels, especially by the EMES European Research Network<sup>1</sup>, which gathered mainly social sciences scholars. Indeed, as soon as 1996, i.e. before most of the European public policies for social enterprise 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 developed an approach - which we will expand in the next section - to identify organisations likely to be called "social enterprises" in each of the fifteen countries forming the EU at the time.

## **2. THE EMES APPROACH OF SOCIAL ENTERPRISE**

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<sup>1</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 scientific association. See [www.emes.net](http://www.emes.net).

In Europe, the EMES European Research Network has developed the first theoretical and empirical milestones of social enterprise analysis (Borzaga and Defourny 2001). 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.

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

Such indicators were never intended to represent the set of conditions that an organisation should meet in order 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 organisations being reshaped by new internal dynamics.

The indicators had 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 with US schools of thought, however, it seems more appropriate to present these nine indicators in 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 recognise more easily many of the usual characteristics of social economy organisations which are refined here in order to highlight new entrepreneurial dynamics within the third sector (Defourny and Nyssens 2010).

In such a slightly reshaped EMES approach, the three sets of criteria are as follows:

### ***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, social enterprises' 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, and voluntary and paid workers. However, the activity carried out in social enterprises requires a minimum level of paid workers.

### ***Social dimensions of social 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 organisations

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 do not only include organisations that are characterised by a total non-distribution constraint, but also organisations which - like cooperatives in many countries - may distribute profits, but only to a limited extent, thus allowing to avoid a profit-maximising behaviour.

### ***Participatory governance of social 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 organisations which have been reshaped by new internal dynamics. The EMES approach proved to be empirically fertile; it has constituted the conceptual basis for several EMES researches, in different industries, such 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) or non-EU countries, like Switzerland and Canada (Gardin *et al.* 2012).

## **2.2. Locating social enterprises in the economy at large**

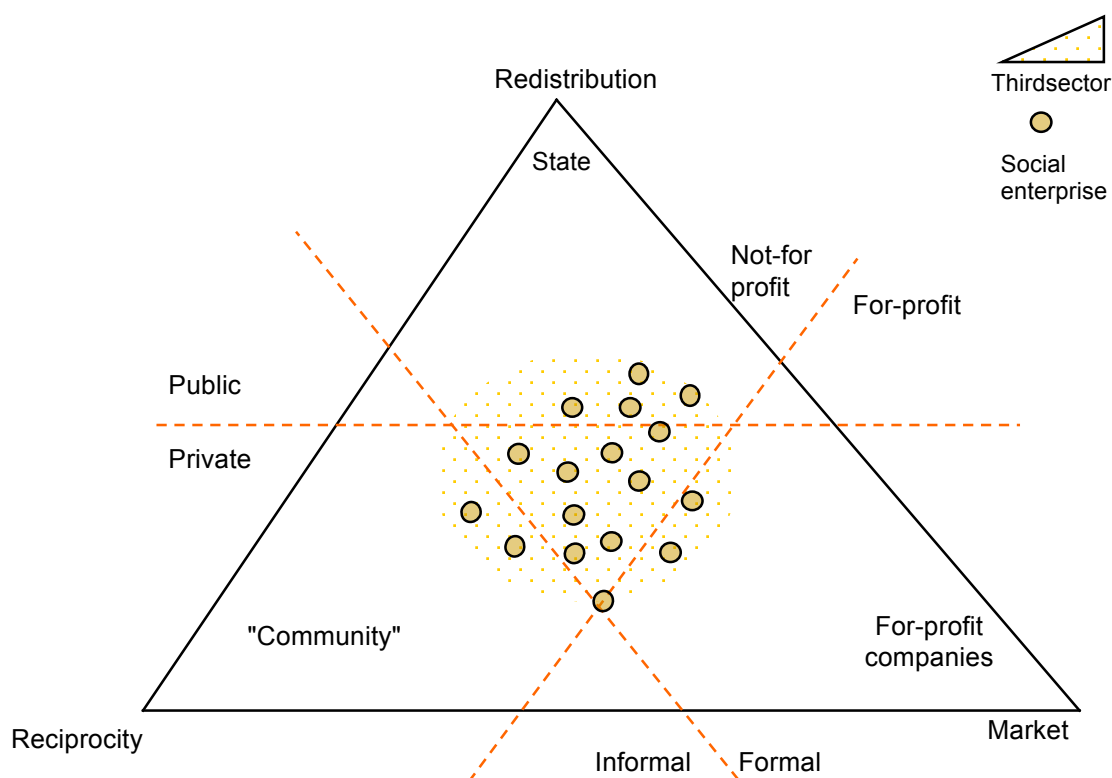
Social enterprises can be expected to have a special place in the overall economy. To apprehend their positioning, it is thus necessary to go beyond conventional "bi-polar" representations of the economic landscape, which only stress the central place of the market and the regulatory role of the state. In such a perspective, we follow Polanyi (1944) and a historical and anthropological approach. Without denying the importance of the profit motive characterising the capitalist economy, Polanyi also highlights other economic practices, not oriented towards the accumulation of profit: redistribution, reciprocity and household administration. Moreover, his analysis is part of a substantive approach that advances a broad conception of the economy, which, according to him, embraces all forms of activities derived from a man's dependence for his living upon nature and his fellows. It refers to the interaction between man and his environment, which results in a continuous supply of want satisfying material means (Polanyi 1944). This conception contrasts with formal, more restrictive approaches to the economy, limiting economic activity to rational choices of maximisation (of satisfaction, profit, etc.) carried out in conditions of scarcity. In a similar vein, several European third sector scholars have discussed the "welfare mix" as made of

shared responsibilities among various types of actors (Evers 1990, 1995; Pestoff 1998, 2005; Evers and Laville 2004) and a diversity of logics (Eme 1991; Laville 1992, 1994). On such a basis, some have proposed a "triangle" representation, which we have slightly adapted to better understand the relations among those actors and their respective logics of action (see figure 1).

The first typology in this triangle distinguishes different kind of actors: the state, private for-profit companies, and communities (in which we can include households). The second typology embedded in the triangle highlights the resources and rationales on which these actors rely to develop their activities; indeed, if we follow the substantive approach of Polanyi (1944) and other converging contributions (Boulding 1973; Mauss 1923-1924; Perroux 1960; Razeto 1988), the economy must be seen as "plural" and characterised by various forms of exchange:

- the *market* principle facilitates the matching of the supply and demand for goods and services for the purpose of trade through price setting;
- *redistribution* is the principle whereby (part of) the production is handed over to a central authority - in our modern societies, generally the state - that is responsible for distributing it. This presupposes the existence of a mechanism defining the rules for raising taxes and allocating those resources. In this way, a relationship is established, for a certain time, between a central authority, imposing an obligation, and the agents subject to it;
- *reciprocity* constitutes an original principle of economic activity based on the logic of symmetry. For Polanyi (1944), actors committed in a reciprocity relationship are voluntarily complementary and interdependent. Exchanges are based on the gift as a basic social fact; it calls for a socially acceptable counter-gift, regulated by social norms rather than perfect equality (Polanyi *et al.* 1957), which takes the form of a paradoxical obligation whereby the group or individual who receives the gift has an opportunity to exercise his freedom. It only has meaning when there is a clear desire for a social bond among stakeholders. The cycle of reciprocity is opposed to market exchange because it is an integral part of human relationships that brings into play the desire for recognition and power. Yet, it is different from redistributive exchange because no central authority is imposing it. A special form of reciprocity is practiced within the basic family unit, which Polanyi calls household administration. For Polanyi, it involves the autarkic production of an institutional unit (such as the family).

Figure 1- Social enterprise as a combination of various actors, logics of action and resources



Source: based on Pestoff (1998 & 2005).

Such a view of the entire economy certainly enriches the analysis of the third sector which, according to a European tradition (Evers and Laville 2004), brings together cooperatives, associations, mutual societies and public benefit foundations - or, in other words, all types of not-for-profit organisations (organisations not owned by shareholders), which are referred to as the "social economy" in various European countries. In such a perspective, the third sector can no longer be viewed as fully separated from the private for-profit and the public sectors; instead, it appears as an intermediate sector. According to Evers (1995), third sector organisations are not only in relation with redistribution and the market, but also with reciprocity embedded in the community sphere; this leads to recognise the great variety of ways in which these organisations act as hybrids, intermeshing different resources and connecting with different actors. This view emphasises the synergetic mixes of resources and rationales available to third sector organisations, rather than clear-cut frontiers between sectors. This is why, in figure 1, the borders among the different types of actors and logics are suggested through dotted lines; and it is precisely the areas of hybridity around these

dotted lines that can shed light on some tensions that third sector organisations experience (Defourny and Pestoff 2008).

As most social enterprises belong to or take roots in the third sector, and as many social enterprises are moreover likely to be located in those "connecting areas", they also actually experience those tensions, resulting in what various authors - such as Emerson (2006) - call the "blurring frontiers" of the social enterprise landscape.

The first type of tension lies in the conflict between the instrumental rationality of the market, which tends to be oriented to the maximisation and distribution of profit, on the one hand, and the primacy of social mission and democratic values in social enterprises, on the other hand. Indeed, many social enterprises are clearly market-oriented, even though they pursue primarily a social aim; they can distribute part of their surplus to their owners. Moreover, some of them result from partnerships between third sector organisations and for-profit companies. Such social enterprises are clearly located around the blurred frontier between the not-for-profit and the for-profit areas, which can increase the risks of mission drift associated with the pursuit of conflicting goals.

In other cases, social enterprises may appear in the upper zone of the circle, especially when they are promoted by state programs that strongly support, for example, the professional integration of long-term unemployed or unskilled people (Nyssens 2006). With the increase of contracting out practices on the part of states for the provision of public services, new or hybrid types of organisation are appearing and are often characterised as social enterprises. The strict regulation and supervision that the state imposes on these organisations explain why the latter are located close to the public sector. However, these organisations also have obvious links with the market, as recent reforms foster market principles and competition, which creates another source of tensions (Hulgård 2010). Partnerships and contractual arrangements between the state and the non-profit sector are not new in the provision of social services (Salamon 1987), but such reforms actually have impacts on the "terms of trade" between public bodies and providers, and between providers and final users. Input-oriented funding (to pay staff especially) is replaced by output-based payments, via fixed-term contracts with providers and benchmark-based evaluation. For-profit providers are increasingly allowed - if not encouraged - to enter the market. Supply-side subsidies can be transformed into demand-side subsidies through cash for care or vouchers, the users being expected to adopt the behaviour of consumers acting on a market to make their choices (Bode *et al.* 2011).

Finally, when examining the area connecting formal and informal organisations, it is possible to observe there trajectories of pioneering social enterprises, which informally invent new responses to social demands, often relying on volunteering in a first phase. Their evolution

towards formalisation may involve some types of tensions, such as those resulting for instance from the co-existence of deeply committed founding volunteers, on the one hand, and paid staff willing to work in the framework of a clear, fixed-hour labour contract, on the other hand; or from difficulties to combine early informal involvement of various stakeholders and subsequent, strictly defined decision-making processes. This area between informal and formal organisations could also be of interest with a view to analysing the heuristic power of the concept of social enterprises to grasp socio-economic logics of collective initiatives embedded in the informal sector in developing countries. In the latter, indeed, large sections of the population living on the margin of the formal economy are involved in various types of economic practices based on self-help principles in order to generate income or to improve their living conditions. These initiatives are sometimes labelled as "solidarity economy"; this is for example the case in Latin America (Corragio 2011; Razeto 1998).

Those various behavioural tensions tend to give a polyvalent and hybrid nature to social enterprises, which must act under the influence of and are dependent on different logics - this, in extreme cases, resulting in organisational transformation.

### **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 that the EMES approach is fully representative of the conceptual landscape in Europe. We do think, however, that 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 (Defourny and Nyssens 2010).

#### **3.1. 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 it has in the United States, as shown by the EMES approach as well as by various public policies, across Europe, promoting social enterprises. Moreover, stressing the issue of governance does not only reflect a distinctive contribution of the EMES approach; it

also goes along with an increasing number of works focusing on specific governance challenges social enterprises are facing (Spear *et al.* 2009).

Since 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 characterised 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 and SEKN Team 2004: xxv).

#### *A participative dynamics*

Secondly, the ideal-typical social enterprise defined by EMES is based on a collective dynamics and on the involvement of different stakeholders in the governance of the organisation. The various categories of stakeholders may e.g. include beneficiaries, employees, volunteers, public authorities and donors. 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 recognised or required by national legislations in various countries (Italy, Portugal, Greece and France).<sup>2</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

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<sup>2</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 cooperatives", users and workers must be effective members. In French "collective interest cooperative 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 cooperatives", they are based on a partnership between individuals of the "target group", psychiatric hospital workers and institutions from the community, and these different categories of stakeholders have to be represented in the board of the organisation.

extent, this approach to social enterprise remains clearly in line with both the third sector (social economy) literature, especially when the latter focuses on community development, and the solidarity economy approach, for which self-management is considered as a key discriminating criterion (Lemaître and Helmsing 2012).

Such a way to stress a collective dynamics clearly contrasts with the emphasis put by the US social innovation school of thought on the individual profile of the social entrepreneur and his/her central role. 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>3</sup>

#### *Limitation on 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, in line with the cooperative 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 are 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>4</sup>

#### *Constraints on profit distribution*

Fourthly, the rights of shareholders are also firmly limited as far as the appropriation of profits is concerned. Indeed, according to the EMES criteria, the field of social enterprises includes organisations that are characterised by a total non-distribution constraint and organisations which may only distribute profits to a limited extent, thus avoiding a profit-maximising behaviour. European legal frameworks also reduce the power of social enterprises'

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<sup>3</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.

<sup>4</sup> It is the case for the Italian "social cooperative", the Portuguese "social solidarity cooperative", the Spanish "social initiative cooperative" and the French "collective interest cooperative 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.



shareholders by prohibiting<sup>5</sup> or limiting<sup>6</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 organisation for the fulfilment of its social mission. This is also in line with the way Yunus defines a social business as, according to his conception, 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 that such a profit distribution might in some cases 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 analysis of these firms' actual practices may reveal that the economic line clearly dominates the other (social and environmental) dimensions.

To sum up these four dimensions of the governance structure, we can borrow Young and Salamon's words when they state that "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 non-distribution constraint, through its "limited profit distribution" criterion, it goes further than that by incorporating as well other aspects that are central to characterising social enterprises' governance structure and to guaranteeing their social mission, whereas the other schools do not give the same importance to organisational features *qua* key tools to maintain the primacy of the social mission.<sup>7</sup> The organisational

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<sup>5</sup> In Portuguese "social solidarity cooperatives" and Spanish "social initiative cooperatives", any distribution of profit is forbidden.

<sup>6</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.

<sup>7</sup> Such a European specificity seems to be increasingly acknowledged at the level of the European Union: in November 2011, the European Commission organised a Conference to prepare the so-called "Social Business Initiative", and the "Communication" it issued to serve as a basis explicitly stated 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 refer to types of businesses in which the social or societal objective is the reason for the commercial activity; profits are mainly reinvested with a view to achieving this social objective

features (caps on rate of return, asset locks, rights of stakeholders...) required by different social enterprise legal frameworks in various European countries reflect this concern about social enterprise's governance. This contrasts with the new legal form, named "L3C" (Low-Profit Limited Liability Company), that has been passed recently in various states of the US: although social goals have to be predominant in the mission of L3Cs, the law neither requires asset locks nor caps on rates of return for investment. Moreover, nothing is said about the rights of stakeholders. As Cooney (2012) underlined, the L3C form therefore suffers from ambiguity surrounding its regulatory regime, and it lacks alignment between its social mission and its organisational features, which do not prevent pressures from profit-maximising stakeholders.

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and the method of organisation or ownership reflects their mission, using democratic or participatory principles or focusing on social justice (European Commission 2011).

### 3.2. The concept of economic risk

Social enterprises are generally viewed as organisations characterised by a significant level of economic risk.

According to the EMES criteria, this means that the financial viability of social enterprises depends on the efforts of their members to secure adequate resources to support 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>8</sup> Indeed, 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 organisation or an undertaking bearing some risk but not necessarily relying exclusively on 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 in social enterprises 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 the "mission-driven business approach" (forming together the "earned income" school of thought), being 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 section 1.2). The Finnish Act on social enterprise and the social economy program in Ireland also describe these organisations as market-oriented enterprises, and many Italian social cooperatives are financed through contracts which are passed with the public authorities in a more or less competitive market.<sup>9</sup>

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<sup>8</sup> For an empirical analysis of the resource mixes of European work integration social enterprises, see Gardin (2006).

<sup>9</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 other authors, to stress converging trends between both major US schools, at least in parts of the academic debate.

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acknowledges the fact that such a market orientation should be considered in a broad sense, as public procurement is an important source of income 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.

### **3.3. 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 organisations, 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>10</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 generally constitutes in itself 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.

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

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<sup>10</sup> We are aware of the possibility to argue that advocacy non-profits may also be described, to a certain extent, as service providers.

### *The key role of public policies*

In the European context, the process of institutionalisation of social enterprises has often been closely linked to the evolution of public policies. As underlined by authors like DiMaggio and Powell (1983), objectives and practices of organisations are partly shaped by their external environment, including the regulations under which they operate. Such a perspective however neglects an essential dynamics of social enterprises, namely the fact that the relationships these enterprises have with public policies are not one-sided: indeed, social enterprises are not just residual actors filling gaps of the market or the state; they also 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 on 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>11</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

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<sup>11</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.

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 in the last decades.

#### **4. THE SPREADING OF THE SOCIAL ENTERPRISE CONCEPT ACROSS THE WORLD**

The last years have witnessed a growing mutual influence of each side of the Atlantic upon the other. More precisely, various authors from European business schools - such as Mair and Marti (2006), Mair *et al.* (2006), Nicholls (2006), Hockerts *et al.* (2010) - contributed to the debate, relying on the concept of social entrepreneurship as it took root in the US context, but also bringing in, of course, 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. Various types of non-profit organisation may be found on the continuum between these different models, from those fully funded by grants to those entirely self-financed. In Nicholls' analysis, only the latter deserve the label of "social enterprise", in the line of the earned income school of thought.

The Canadian debate on social enterprise shares many of the features of its US counterpart. However, it is more embedded in a collective approach to socio-economic innovation (Mendell 2010) and it has some European colours. More precisely, Canadian social enterprises are rooted in a long history of cooperatives and community initiatives. Community economic development corporations are an emblematic example of this trend. They have been established in the early 1980s in urban neighbourhoods in Quebec to tackle social exclusion of emerging groups in a context of economic crisis. They develop new socio-economic approaches to local development through a process of "instituted collaboration between the private sector, community organisations, labour and social movements" (Mendell 2010; Favreau 1998). Inspired by the Italian social cooperative model, legislation was passed in 1997, establishing solidarity cooperatives that include citizens as members.

The different schools of thought also influence debates in other parts of the world, such as Latin America - through the Social Enterprise Knowledge Network (SEKN), formed by leading Latin-American business schools and the Harvard Business School - or Eastern Asia (Defourny and Kuan 2011).

SEKN defines social enterprise as "any kind of organisation or undertaking engaged in activities of significant social value, or in the production of goods and services with an embedded social purpose, regardless of legal form" (Austin and SEKN Team, 2004: xxv). More precisely, they distinguish between two types of "*emprendimiento social*" (social entrepreneurship), reminding of the two versions of the earned income school but in the reverse order: "When companies implement projects exclusively driven by the development of social value, they enter the sphere of social enterprises. In a similar way, a lot of civil society organisations implement earned income projects, not necessarily related to their social mission, in order to get income to sustain their project. This latter approach is also relevant in the sphere of social enterprise" (Austin and SEKN Team 2006: 3). However, when defining social enterprises in a more precise way, Berger and Blugerman (2010), in their chapter on "*Empresas sociales y negocios inclusivos*" (Social enterprises and inclusive business), consider both non-profit organisations and cooperatives as social enterprises, alongside the social economy approach.

In Eastern Asia, the social enterprise concept is rapidly gaining success, although it is still in an emerging phase. So far, South Korea is the only country that has passed a law defining and promoting social enterprise. According to Bidet and Eum (2011), the Social Enterprise Promotion Act of 2006 in this country is inspired by both the British policy and the Italian social cooperative law of 1991, which distinguishes between social enterprises providing social services and work integration social enterprises (WISEs). More generally, on the basis of four country studies (including China and South Korea) carried out along the same lines (Chan *et al.* 2011; Larrata *et al.* 2011; Yu 2011), a comparative analysis highlighted five major "social enterprise models" that seem to be found throughout Eastern Asia (Defourny and Kim 2011): a widespread "trading NPO" model, which appears to be close to the earned income school; a "WISE" model and a "non-profit cooperative enterprise" model, both much closer to European experiences and to the EMES approach; a model of "social enterprise stemming from non-profit/for-profit partnerships", which SEKN also identifies in Latin America; and a "community development enterprise" model, based on multi-stakeholder partnerships and promoting local participatory development.



Coming back to Europe, when the UNDP decided to analyse the potential for promoting social enterprise in Central and Eastern European countries and in the Community of Independent States, it established a close collaboration with the EMES Network. The latter simplified its approach - based on Western European experiences - to better apprehend the categories of initiatives likely to be seen as social enterprises or that could be considered as being "in the neighbourhood" of the latter (Borzaga *et al.* 2008). That study came out with a wide diversity of organisations combining an entrepreneurial behaviour with a general interest orientation, both in varying degrees. With respect to Figure 1, this first tentative mapping of social enterprise in CEE countries and in the CIS would result in the addition of more organisations beyond the limits of the triangle's central area. However, it proved to be compatible with the EMES approach, which relies on an "ideal-typical" social enterprise instead of on a list of normative criteria.

Finally and quite recently, the European Commission (2011) issued an official "communication", entitled "Social Business Initiative", in which "the concepts of social business and social enterprise are taken as equivalent", although not in the narrow sense of social business as promoted by Yunus (2010). Interestingly, the European Commission adopts a definition of social enterprise which is clearly at the crossroads of the three schools of thought described above (sections 1.1 and 2.1)<sup>12</sup>: "A social enterprise is an operator in the social economy [*EMES school*] whose main objective is to have a social impact rather than make a profit for their owners or stakeholders [*the three schools*<sup>13</sup>]. It operates by providing goods and services for the market [*earned income school*] in an entrepreneurial and innovative fashion [*social innovation school*] and uses its profits primarily to achieve social objectives [*the three schools*<sup>14</sup>]. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders [*EMES school*] affected by its commercial activities". (European Commission 2011: 2).

## CONCLUSION

Even though not all practices encompassing social entrepreneurship and social enterprises are new, these concepts are on the rise. As we have seen, this field is characterised by a wide diversity from the point of view of organisational 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 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 paper 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. Unless they are embedded in local contexts, social enterprises will just be

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<sup>12</sup>Comments within brackets are ours.

<sup>13</sup> Such limits to profit distribution are not found among most authors belonging to the "mission-driven business approach", within the "earned income school of thought".

<sup>14</sup> See previous note.

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 mobilise 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 logics of privatisation and marketisation 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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