

Understanding Social Enterprise





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Social Enterprise World Forum (SEWF) aims to promote social justice and equality of opportunity around the world. SEWF is committed to growing a social enterprise movement to create a new global impact economy to enable our planet to regenerate and our communities to flourish. SEWF is seeking to promote a greater understanding of social enterprise, not to propose a set of rules. Here we highlight the defining characteristics of social enterprise, alongside principles and features that SEWF believes to be important.

SEWF is an inclusive organisation and our supporters come from different cultures and continents, each with legal, fiscal and regulatory systems for business, including social enterprise. We respect the efforts of all those who work towards sustainable and inclusive economic development, but as the leading agency for the social enterprise movement, we remain steadfast in our commitment to social enterprises where social mission is the primary function of the business.

SEWF has identified 3 principal characteristics of social enterprise related to mission, investment and ownership that this document outlines. In addition, this document explains 3 features that social enterprises globally demonstrate and frequently adopt. Further clarification on business models related to social enterprises can be found at the end.



Social Enterprise Characteristics

MISSION PRIMACY

Social enterprises have a clear and primary social or environmental mission set out in their governing documents.

INVESTMENT OF SURPLUS

Social enterprises reinvest the majority of their profits in pursuit of their mission.

ORGANISATIONAL OWNERSHIP

Social enterprises are majority controlled in the interests of the enterprise's mission and are usually autonomous of state.



MISSION PRIMACY

Social enterprises have a clear and primary social or environmental mission set out in their governing documents.

We value individuals and businesses who are striving to make our interconnected local and global communities more just and equitable places. All social entrepreneurs will have a social or environmental mission in pursuit of local, national or global community benefit, but not all individuals pursuing this community benefit are necessarily social entrepreneurs. We value all organisations that do good in their communities and support causes they believe in, but social enterprises are different from charitable projects or commercial sector social initiatives. At its heart, a social enterprise is a business where a social or environmental mission is the primary function.

INVESTMENT OF SURPLUS

Social enterprises reinvest the majority of their profits in pursuit of their mission.

Investment of surplus is one of the most significant differentiations between private business and social enterprises. Private businesses may commit to social expenditure or address the UN Sustainable Development Goals, but they are still accountable to shareholders and owners. Social enterprises reinvest the majority of their surpluses in pursuit of their mission, instead of simply investing a discretionary portion of their surplus as part of corporate strategy.

For example, in the United Kingdom, the community interest company structure has been designed to ensure that investor shareholding is capped at 35% of total shares. This initiative recognised that the ability of a social enterprise to retain the majority of its surpluses for reinvestment in mission is critical to the identity of the organisation and how it is perceived by its staff, customers and stakeholders.



ORGANISATIONAL OWNERSHIP

Social enterprises are majority controlled in the interests of the enterprise's mission and are usually autonomous of state.

Social enterprises serve the larger community and should not be individually controlled. They are different from a private business where the shareholders or private owners can make unilateral decisions about wealth and direction of the company. Social enterprises must be permanently focused on the social or environmental mission and the community or cause.

We recognise that throughout the world social enterprises use "for-profit" structures but reinvest the majority of their profits in pursuit of their mission on a voluntary basis. We differentiate and engage differently with social enterprises that use "for-profit" structures through necessity rather than by choice. **SEWF** is committed to supporting the introduction of legal structures that lock in commitment to mission in return for taxation or other advantages.

For-profit or private businesses can be regarded as social enterprises when they are owned and controlled by one or more non-profits. This structure is popular where non-profits cannot legally trade. When a non-profit or group of non-profits has control over the private business, the activity and or the surpluses will be committed to social or environmental purposes and these enterprises are a key part of the social enterprise movement.

It might seem obvious that social enterprises should be independently controlled from the state. Some countries have structures where the state, in the form of national government, local government or government agencies, can establish charitable or non-profit structures to deliver state priorities at arms-length from government. In such entities, priorities, values and behaviours will reflect the interests of the state, whereas social enterprises create and deliver entrepreneurial strategies to achieve social mission, which may address areas of perceived government or market failure.

We recognise that governments are critical actors in the social enterprise ecosystem playing an essential role in ecosystem development. We believe that social enterprises must be independent of the state while partnering with government when possible and appropriate.



Social Enterprise Features

This section outlines some of the features of social enterprise, while acknowledging that these will vary across regions, cultures and economic systems. The variations are important as the diversity of social enterprise models results in greater global transferability. In some countries social enterprises will have a greater emphasis on participation where the traditions are those of a social solidarity economy. In other areas they will be emerging from an increasingly enterprising non-profit sector or from former state-controlled economies.

ETHICAL TRANSPARENCY & ACCOUNTABILITY

Social enterprises are transparent about and accountable to their mission.

TRADE GENERATED INCOME

Social enterprises aim to generate the majority of their operating income through trade.

ASSET LOCK

Social enterprises strive to protect the distribution of their assets.



ETHICAL TRANSPARENCY & ACCOUNTABILITY

Social enterprises are transparent about and accountable to their mission.

Social enterprises should not only do good, but they should do good well. **SEWF** believes social enterprises should aspire to the highest ethical business standards and corporate citizenship. This includes respecting suppliers by paying them on time, developing a social enterprise supply chain, valuing staff by treating them well and paying a living wage. Value based organisations should aspire to low pay differentials (between highest and lowest paid), participation in decision making and employee benefits that are family friendly. If social enterprise hopes to be a business model for a sustainable global economy, then treating people well is fundamental to this.

Social enterprises should also be transparent and clear in the ways they report their use of their surpluses and how they measure their annual social impact. In the social enterprise sector, how social enterprises do business should be just as important as what business they do.

TRADE GENERATED INCOME

Social enterprises aim to generate the majority of their operating income through trade.

Sales revenue is one of the ways of differentiating social enterprises from non-profit and voluntary sector organisations that are not focused on trading as a means to deliver their mission. Social enterprises aim to derive the majority of their operating income through exchange and trade of goods or services, not through grants, philanthropic sponsorship, donations or other means. Traditional operating income is distinct from grant income and other funds typically used for capital projects, expansion and scaling.

Additionally, many social enterprises do not generate the majority of their operating income through sales during the start-up period of their organisation. However, once a social enterprise has been operating beyond the start-up period of 2-3 years, they typically generate the majority of their operating revenue through trade and look primarily to sales to resource their core services.

The interpretation of “trading income” may be different across the world and will depend in part on the methods and systems used by governments to commission services or responses to social or environmental challenges. While stating that most social enterprises will generate the majority of their income from trading, **SEWF** recognises that trading is highly dependent on context, sector and maturity but this characteristic reflects the enterprising culture of social enterprise organisations.

ASSET LOCK

Social enterprises strive to protect the distribution of their assets.

Asset lock - a provision in the founding documents of a social enterprise that prevents distribution of an enterprise’s residual assets upon dissolution, disposal or conversion – is something social enterprises should enshrine if legally feasible. The asset lock is important to ensure that social enterprises cannot be aggressively, or softly, purchased by new owners for greater financial return. Incidences where high profile social businesses are sold to private equity funds or private businesses are damaging the perception and reputation of social enterprises.



Social Enterprise & Other Business Models

LEGAL STRUCTURES & RESTRICTIONS

Some countries only offer social entrepreneurs the option of registering as a traditional for-profit company as non-profit organisations have trading restrictions. In these circumstances many groups and entrepreneurs choose a for-profit structure where the social purpose is very visible but not legally protected or controlled. **SEWF** recognises and appreciates these restrictions and is working with governments and our legal partners to increase the range of legal structures available to social enterprises.

CORPORATE SOCIAL RESPONSIBILITY (CSR) & SOCIAL PROCUREMENT

CSR efforts are important to the success of social enterprises. This can include investment in larger enterprises scaling for impact, start-ups needing support before trading income is generated and smaller social enterprises engaging with commercial partners to benefit local communities and causes. The CSR transaction will benefit both parties, but is essentially discretionary and in most cases, time limited, to deliver a project or programme.

In recent years social enterprise engagement with corporate business has moved from CSR to procurement. Social procurement often involves CSR personnel making introductions and reporting social impact, but when a company is purchasing goods, services or works from a social enterprise the transaction may have more value than a donation. While still making good decisions that benefit communities and social enterprises, a business that donates to social causes or purchases from social suppliers, does not become a social enterprise by engaging in that act.



BUY-ONE, GIVE-ONE BUSINESS MODELS

Both private businesses and asset-locked social enterprises can operate under this model, but there are distinctions between the private businesses and social enterprises that employ this operating structure. It is a simple model for consumers to understand and it is successful because many consumers identify with the social issues that these companies address.

With the right implementation, the buy-one give-one model can have significant social impact, but when the approach and implementation around giving is not carefully thought through and genuinely empowering to the recipients, it may not be an effective or sustainable method of addressing social issues. Therefore, social enterprises operating under this model should always think about ways in which they can address the root causes of the social issues they are aiming to address, not simply material manifestations of those issues.

CERTIFIED BENEFIT CORPORATIONS (B CORP)

B Corps are a growing global movement and SEWF is supportive of this challenge to the concept of shareholder primacy. The values and behaviours of B Corps are rooted in business being a force for good and many are doing less social harm than their private business competitors. The model recognises that B Corps give business leaders an opportunity to make money while doing good. Yet, B Corps still have shareholder value at the core and this is distinctly different from social enterprise businesses established to solve social or environmental issues. Corporate businesses, B Corps or otherwise, should recognise their potential to address social and environmental challenges, and their role is highly complementary to the social enterprise movement.

For further information about social enterprise and the Social Enterprise World Forum, contact secretariat@sewfonline.com

