



Social Enterprise: What *the* U.S. *and* European Experience Can Teach Us—And Where *to* Now?

by Janelle A. Kerlin

USE OF THE TERM *SOCIAL ENTERPRISE* HAS BEEN growing in popularity since the mid-1980s, though the activity itself has long been in existence. Generally defined as any market-based activity to address a social issue, social enterprise has by some accounts become a global movement to sustain socially beneficial activities largely by means other than traditional government and philanthropic resources.¹ Though the value added from

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undertaking social enterprise can be emphasized differently depending on geographic context, social enterprise generally speaks to increasing the self-sufficiency, long-term sustainability, programmatic autonomy, and beneficiary empowerment of organizations involved in pursuing a social mission. Looking globally, the social enterprise movement of the last three decades has been spurred on by the need for resources or programming (or both) to fill gaps in systems attempting to serve the disadvantaged.² Largely as an outlier, social enterprise in the United States also encompasses activities that support the improved well-being of populations beyond the disadvantaged. Thus, typical examples include organizations that provide work for the hard to employ, thrift stores that sell secondhand goods to support a social purpose, scouts that sell cookies or other items to fund their youth programming, microfinance organizations that lend money to the poor for their small business start-ups, and museum stores, among many others.

The exact definition of social enterprise is often contested along its commercial and social boundaries. Indeed, Trent University associate professor Raymond Dart says of social enterprises that they “blur boundaries between nonprofit and for-profit.”³ Some in the burgeoning social enterprise field, however, appear to be coalescing around parameters, albeit broad ones, for the term. Social enterprise is increasingly defined as distinct from corporate social responsibility (CSR), where profit-driven businesses donate only a fraction of their funds or employee time to social projects. Corporate philanthropy is also often seen as separate from social enterprise, due to the primacy of the profit motive in the corporate generation of revenue relative to the comparably small social cause work of the organization. Other discussions exclude charitable/nonprofit organizations that generate only a small amount of commercial revenue. Thus, while the broadest definitions may include all of these forms of commercially backed social efforts, definitions of social enterprise—either inherently or explicitly—often exclude undertakings that are relatively lacking in either the social or commercial aspect.⁴

Understandings of the concept of social enterprise and what it is associated with can vary across global regions as well as individual countries and even subnational spaces.⁵ Variation can be seen in the predominant activities, clients, outcome focus, funders, regulation, and legal forms for social enterprise in different contexts.⁶ In Europe, a number of countries provide strong national government support for social enterprise, including some welfare states that are viewed as having co-opted social enterprise for their own policy purposes (namely, the work integration of the hard to employ), often through social cooperatives that enjoy substantial government subsidies—though there are variations on this model.⁷ Strong government support for this particular type of social enterprise activity has led to the term’s association with the provision of employment and less so with other social purposes, though this is more the case on the continent than in the United Kingdom.⁸ There is also a growing list of countries with specific legislation for social enterprise legal forms on the national level, many of which are adaptations of the cooperative form. In 1991, Italy was the first to adopt the social cooperative legal form, with a number of other countries later following suit⁹—including France, Greece, Poland, Portugal, and Spain. Alternatively, in 2005, the United Kingdom passed a modified for-profit legal form, the Community Interest Company (CIC), to address the call to elevate social mission in a for-profit setting.¹⁰

Differences between Social Enterprise in the United States and Europe

Social enterprise in the United States is, by comparison, largely left to the private and civil society sectors. Here, a national-level legal form has not been created for social enterprise, though there is significant state-level tinkering with adaptations of for-profit legal forms that legally allow social and profit goals to coexist, such as the *low-profit limited liability corporation (L3C)*, the *benefit corporation*, and the *social purpose corporation*. The cooperative form has historically not been associated with the term *social enterprise* in the United States; however, this is changing with the emergence of

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such entities as the Evergreen Cooperatives in Ohio and the Cooperative Home Care Associates in New York.¹¹ Also, by contrast, in the United States there is generally more emphasis on revenue generation in support of a wide range of social purposes that may or may not involve beneficiaries in the earned income activity and that focus on the disadvantaged as well as improved well-being more generally. Historically, the development of social enterprise has involved more foundation than government support.¹²

Typical organizational arrangements for social enterprise in the U.S. context span both nonprofit and for-profit legal forms.¹³ In terms of nonprofits, the social purpose organization involves the generation of earned income through the in-house sale of products or services. An example is the physical fitness and recreational services provided by the Young Men's Christian Association (YMCA).

The sale of products or services can also be arranged through a nonprofit or for-profit subsidiary. The creation of subsidiaries allows a nonprofit to engage in activities that may only be peripherally related to its mission or to reduce its risk as it experiments with a new program or business ideas. Such subsidiaries are considered social enterprises when they include an earned-income component. For example, a comprehensive social service provider might establish an employment agency for hard-to-place inner-city residents as a separate nonprofit subsidiary. While the parent organization may provide start-up funding and administrative services, the subsidiary is able to adopt its own structure and create a business-like culture.¹⁴

The for-profit subsidiary is often chosen when a nonprofit seeks to protect its tax-exempt status while engaging in substantial business activity that is not related to its charitable exempt purpose. Profits from the for-profit subsidiary are taxed at normal corporate income tax rates, even though they support the charitable activities of the nonprofit. The Sustainable Community Initiatives' establishment of a for-profit subsidiary called Community Forklift (a recovered building materials store) is an example of this. At times, nonprofits go a step further and establish

a network of nonprofit and for-profit subsidiaries, creating a nonprofit conglomerate such as Housing Works, which serves the homeless with HIV/AIDS in New York City.¹⁵

In the United States, social enterprises are also housed within a for-profit business form. Dual-purpose businesses (hybrids) mediate profit goals with internally realized social objectives to achieve either a double bottom line (financial and social returns) or triple bottom line (financial, social, and environmental returns). An example is Pura Vida Coffee's mission, which calls for providing living wages for farmers and producers in Latin America through the sale of fair trade coffee, the education of consumers and business leaders to take action toward social good, and serving at-risk children and families in Latin American communities and around the world.

In the European context, there can be variations on these organizational arrangements with the for-profit and charity/association (similar to nonprofit) legal forms found there. However, the use of a single organization appears to predominate over a conglomerate, with this typically being the cooperative or social cooperative legal form (when such legislation is present). Associations may also house a revenue-generating component; however, this is only where laws allow business activity within the association legal form.

Another point of differentiation between Europe and the United States is the internal governance of the social enterprise. In the European context, the governance of the organization carries greater importance due to its expected role in the democratic advancement of the economy.¹⁶ Indeed, the European social enterprise focus on autonomous development, decision making exclusive of capital ownership, and participation of multistakeholders in the governance of the organization all speak to the cooperative roots of social enterprise in Europe. In terms of autonomy, a hallmark of European social enterprises is that they are established and managed by citizen groups rather than public or private entities, though they can receive significant funding from these sources. As such,

public-private partnerships are not included in their conceptualization of social enterprise, though they can be at times in the U.S. context.¹⁷ Decision making in European social enterprises is based on the premise of one member, one vote, and is not determined by capital ownership, as it can be in the United States with for-profit social enterprises. The involvement of multiple stakeholders—including employees, beneficiaries, volunteers, sponsors, and government and business actors from the local community, either on the board or as members—creates a situation of multistakeholder ownership and governance of the social enterprise. These last two characteristics are captured as requirements in the legislation for social enterprise legal forms in some European countries.¹⁸

In the U.S. context, democratic governance of the social enterprise gets less attention, and more focus is placed on ensuring business management expertise, especially in the case of the nonprofit social enterprise. *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs* by Greg Dees, Jed Emerson, and Peter Economy discusses many alternative means to structure social enterprise in relation to the nonprofit that has given the enterprise birth.¹⁹ Alternative board structures might include an advisory board or a business enterprise board. If the enterprise is located inside the nonprofit, an advisory board can be established to specifically provide support and counsel on the enterprise side. Such advisory boards typically have more representation from clients and the community, and can be formal or informal. When the social enterprise is housed in a legally separate for-profit subsidiary, a business enterprise board can be established at its head with a focus on profit making.

Given the above, it is not surprising that Europeans and Americans often define social enterprise differently. In the United States, there are, broadly speaking, two principal schools of thought: the *earned-income school* and the *social innovation school*. The earned-income school focuses on social enterprise organizations and activities that generate commercial revenue in support of social goals.²⁰ Indeed, a version of this definition is used by

the Social Enterprise Alliance (the U.S.'s professional association), as well as among many social science scholars.²¹ From this perspective, social enterprise encompasses a variety of forms along a continuum from dual-purpose businesses that mediate profit goals with social objectives (hybrids) to nonprofit organizations engaged in mission-supporting commercial activity (social purpose organizations, for-profit subsidiaries of nonprofits, nonprofit-business partnerships, etc.).²²

The second school of thought, the social innovation school, is more focused on the individual (as opposed to the organization), and is embodied in the innovative social entrepreneur, with the social enterprise as the vehicle through which a social innovation is delivered—with or without a commercial base.²³ Business schools and foundations in the United States largely espouse the social innovation school.²⁴ Some authors, however, promote a distinction in the use of these terms that aligns with the two schools of thought. Paul Light, for instance, states, “Whereas social entrepreneurship seeks tipping points for innovation and change, social enterprise seeks profits for reinvestment and growth.”²⁵ Citing J. Gregory Dees, Light argues that on an academic level there is increasing agreement that social enterprise is distinct from the foundation definition of social entrepreneurship due to its connection with revenue generation.²⁶

In Europe, the EMES International Research Network established a set of loose criteria to use in identifying social enterprises in that context. These include the economic/entrepreneurial criteria of “a continuous activity producing goods and/or selling services; a high degree of autonomy; a significant level of economic risk; a minimum amount of paid work.” They also include the social criteria of “an explicit aim to benefit the community; an initiative launched by a group of citizens; a decision-making power not based on capital ownership; a participatory nature, which involves various parties affected by the activity; a limited profit distribution.”²⁷ This approach differs from the ways social enterprise is typically conceived of in U.S. circles. One

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key difference is the European focus on having a multistakeholder governing body as well as a lack of emphasis on social enterprise as involving "innovation." It should be added that in the European approach, not every criterion listed above needs to be met precisely in order to place an organization in the social enterprise sphere.²⁸

Moving Forward

As I have noted elsewhere, "The concept of social enterprise continues to raise the interest of people around the world. From practitioners to policymakers, activists, and funders of the social good, social enterprise has captured the imagination and hopes of a growing cross-section of society that seeks to find a more sustainable answer to the problems of society."²⁹

Realizing that potential, however, can be a challenge. Indeed, social enterprise is not without its critics on both sides of the Atlantic. Pascal Dey and Chris Steyaert recently published an edited collection of papers written by scholars in North America and Europe that critique social entrepreneurship and enterprise. The five sections in the book bring awareness to and open a discourse around assumptions about social entrepreneurship; its political and ideological representations; how it is enacted through language, trust, and compassion, with sometimes unintended consequences; its moral predicaments and limitations with respect to participation and democracy; and how newly understanding it from a relational view can shift thinking around what is possible, including systems change. Their affirmative critique—which positions the current phenomenon of social entrepreneurship and enterprise as "inadequate yet necessary"—challenges those involved to not settle for the status quo but rather to push the field's frontiers to achieve the full potential of social enterprise and address any needed corrections along the way.³⁰

As Dey, in an article with Hanna Schneider and Florentine Maier, puts it, this requires "first . . . an enticing positive vision (e.g., democracy, justice, good life, human decency). Secondly, in alignment with such ideals, it should be made clear that they will always remain elusive, and

that the road towards approximating them will remain forever arduous."³¹ What is increasingly clear is that social enterprise is one of the important tools that can take us along this path—if due diligence is paid to the steering of it.

NOTES

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