

SOWK2203 / UGEC 2693

Mission-driven Social Enterprise

(使命驅使的社會企業)

**Lecture 1: Definition & Conceptualization of
Social Entrepreneurship**

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What is Social Enterprise – A poor definition? (Home Affairs Bureau, HKSAR Government)

- ▶ “There is no universal definition of social enterprise (SE).
- ▶ In general, an SE is a business to achieve specific social objectives such as providing the services (such as support service for the elderly) or products needed by the community, creating employment and training opportunities for the socially disadvantaged, protecting the environment, funding its other social services through the profits earned, etc.
- ▶ Its profits will be principally reinvested in the business for the social objectives that it pursues.



HKSAR Government's Operational Definition of "Social Enterprise"

- ▶ The primary objective of an SE is to achieve its social objectives, rather than maximizing profits for distribution to its shareholders. [How about distribution to the management?]
 - ▶ This above description of SE has been adopted by the Home Affairs Bureau (HAB) for supporting general or sector-wide promotion activities for SE
 - ▶ "An SE is a business targeted to achieve specific social objectives through entrepreneurial strategies and self-sustaining operations, and not less than 65% of its distributable profits are reinvested in the business for the social objectives that it pursues." [Reflection: Is Street Donation Company a SE?]
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What is Social Enterprise/ Social Entrepreneur/ Social Entrepreneurship

Social Entrepreneur

Social Enterprise

Social Entrepreneurship



Locate SE/SB at the intersection of Nonprofit & Business Sectors

EXHIBIT 2 | Social Businesses Are at the Intersection of Nonprofit and Business Sectors

	NGO	Business-inspired NGO	Social Business	Balanced social/profit business ¹	Business
Primary objective	Social impact	Social impact	Social impact	Social impact and commercial success	Commercial success
Products/services priced for sale	X	✓	✓	✓	✓
	N/A	Price < Costs	Price ≥ Costs ²	Price > Costs	Price > Costs
Business model	Maximizes social impact	Maximizes social impact	Maximizes social impact	Maximizes social impact	Ensures social standards
	Funded through donations	Partially funded through donations	Financially self-sustainable	Maximizes profitability	Maximizes profitability

Social entrepreneurs

Source: BCG analysis.

¹These include legal entities such as B-corporations (benefit corporations) in the U.S., Patagonia is one example.

²At least over the long term.



Seven Principles of Social Business proposed by Prof. Yunus



1. Overcome Poverty

A black and white photograph of a hand holding a white, oval-shaped pill. The pill is positioned directly over the word "poverty", which is written in a green, cursive font. The hand is shown from the right side, with the thumb and index finger gripping the pill. The background is plain white.

poverty

- Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access, and environment) which threaten people and society; not profit maximization.



2. Financial & Economic Sustainability



3. No Dividend



- Investors get back their investment amount only. No dividend is given beyond investment money

4. Profit Stays



- When investment amount is paid back, company profit stays with the company for expansion and improvement



5. Gender Sensitive & Environmentally Conscious



6. Provide Decent Jobs



decent work
decent life

- Workforce gets market wage with better working conditions

7 ...Do It With Joy



The US tradition: Entrepreneur & Entrepreneurship

Entrepreneur looks for (Drucker, 1985)

‘The unexpected’: an unexpected success, failure, or event ;





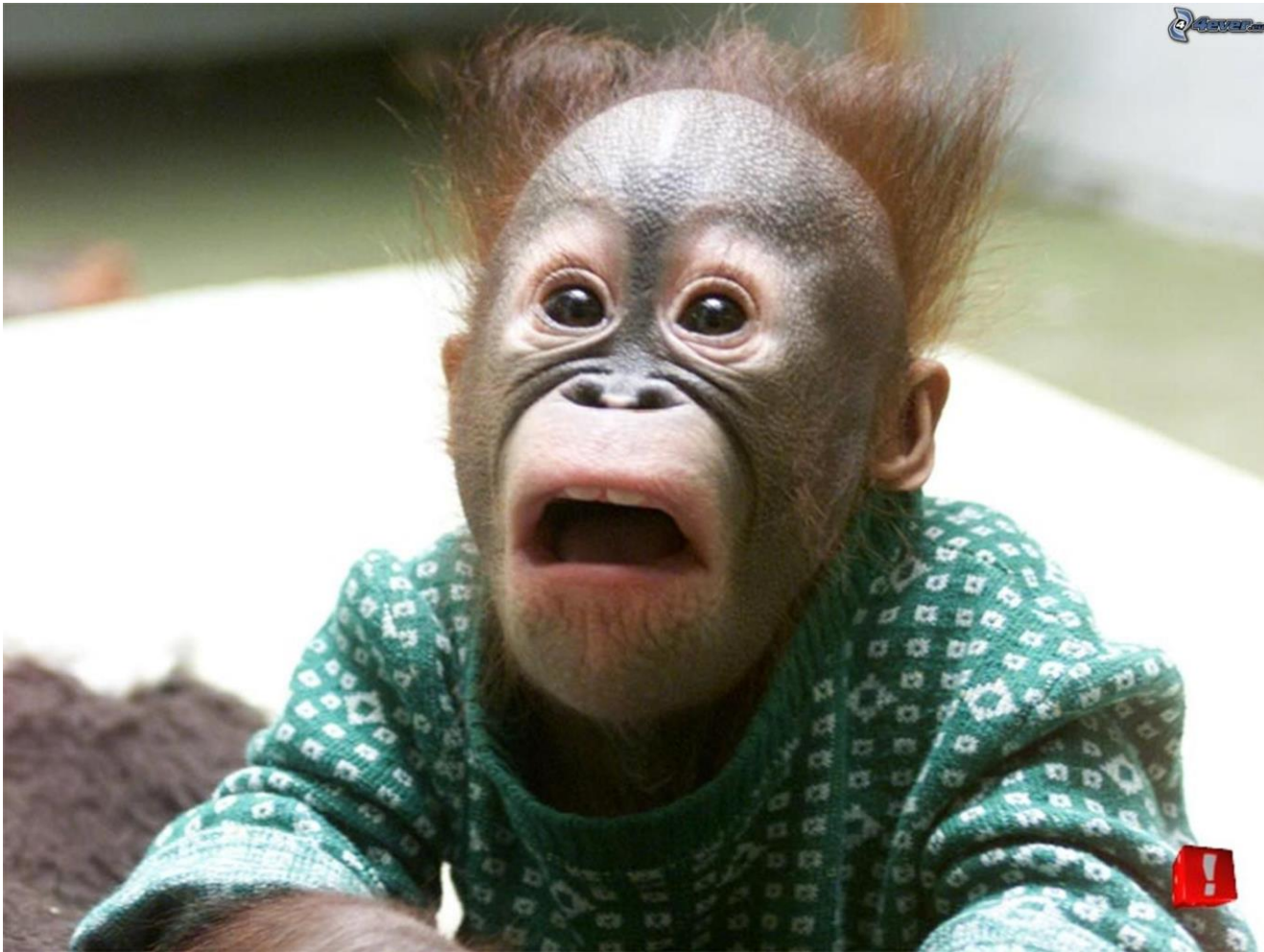
Incongruities: between things as they ought or are said to be – and how they actually are;



Problems with an existing process for which
no one has provided a solution



Changes in how an industry or market operates that takes everyone by surprise;





Demographic (population) changes



Changes in perception, mood or meaning



To sum, Entrepreneurship is ... (Drucker, 1985)

- ▶ Exploiting the opportunities that **change** create;
- ▶ Starting a business is neither necessary nor sufficient for entrepreneurship;
- ▶ Entrepreneurship does not require a profit motive



The meaning of “Social Entrepreneurship” Dees (1998)



- ▶ Entrepreneurs do not allow their own initial resource endowments to limit their options; mobilize the resources of others to achieve their entrepreneurial objective.
 - ▶ For social entrepreneurs, the **social mission is explicit and central**. This obviously affects how social entrepreneurs perceive and assess opportunities.
 - ▶ **Mission-related impact becomes the central criterion, not wealth creation. Wealth is just a means to an end for social entrepreneurs.** With business entrepreneurs, wealth creation is a way of measuring value creation.
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Market are not perfect



PUBLIC GOODS

- ▶ markets do not do a good job of valuing **social improvements, public goods and harms, and benefits for people who cannot afford to pay.**
 - ▶ These elements are often essential to social entrepreneurship. That is what makes it social entrepreneurship. As a result, it is much harder to determine whether a social entrepreneur is creating sufficient social value to justify the resources used in creating that value.
 - ▶ The **survival or growth** of a social enterprise is not proof of its efficiency or effectiveness in improving social conditions. It is only a **weak indicator**, at best.
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What counts?

- ▶ Social entrepreneurs rely on subsidies, donations, and volunteers, but this further muddies the waters of market discipline.
- ▶ The ability to attract these philanthropic resources may provide some indication of value creation in the eyes of the resource providers, but it is not a very reliable indicator.
- ▶ The psychic income people get from giving or volunteering is likely to be only loosely connected with actual social impact, if it is connected at all.



Social entrepreneurs play the role of change agents

- ▶ Adopting a **mission to create and sustain social value** (not just private value),
- ▶ Recognizing 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
- ▶ Exhibiting a **heightened sense of accountability to the constituencies served** and for the outcomes created



Theory of social entrepreneurship (Dees and Anderson, 2006)

- ▶ Intersection of “Social Enterprise School” (SE) & “Social Innovation School” (SI) in the 1990s
 - ▶ “SE school”—focused on the generation of “earned-income” to serve a social mission;
 - ▶ “SI school” – focused on establishing new and better ways to address social problems or meet social needs.
- ▶ Academic inquiry focus on “enterprising social innovations”:
 - ▶ carrying out innovations that blend methods from the worlds of business and philanthropy to create social value
 - ▶ that is sustainable and has the potential for large-scale impact.



Value-driven social entrepreneurship (Martin & Osberg, 2007)

- ▶ Aims for value in the form of large-scale, transformational benefit that accrues either to a significant segment of society or to society at large.
- ▶ Social entrepreneur's value proposition targets an underserved, neglected, or highly disadvantaged population that lacks the financial means or political clout to achieve the transformative benefit on its own.



Three components of social entrepreneurship (Martin & Osberg, 2007)

- ▶ **Identifying a stable but inherently unjust equilibrium** that causes the exclusion, marginalization, or suffering of a segment of humanity;
- ▶ Identifying an opportunity in this unjust equilibrium, **developing a social value proposition**, and bringing to bear inspiration, creativity, direct action, courage, and fortitude, thereby challenging the stable state's hegemony;
- ▶ **Forging a new, stable equilibrium** that releases trapped potential or alleviates the suffering of the targeted group, and through imitation and the **creation of a stable ecosystem** around the new equilibrium ensuring a better future for the targeted group and even society at large



Boundary of social entrepreneurship

- ▶ It is **not social service provision**.
 - ▶ Unless it is designed to achieve large scale or is so compelling as to launch legions of imitators and replicators, it is not likely to lead to a new superior equilibrium. These types of social service ventures never break out of their limited frame. [Reflection: Assisted Employment “SE” in HK, close shop after funding end]
- ▶ It is **not social activism**.
 - ▶ motivator is the same— an unfortunate and stable equilibrium.
 - ▶ actor’s characteristics are the same – inspiration, creativity, courage, and fortitude.
 - ▶ Different: nature of the actor’s action orientation.
 - ▶ Social entrepreneur takes direct action, social activist attempts to create change through indirect action, by influencing others – governments, NGOs, consumers, workers, etc. – to take action. [Reflection: Consumer Co-op of the CSSA recipients]



Hybrid Models in practice

- ▶ In the pure form,
 - ▶ the successful **social entrepreneur** takes **direct action** and generates a **new and sustained equilibrium**;
 - ▶ the **social activist influences others to generate a new and sustained equilibrium**; and
 - ▶ the **social service provider** takes **direct action** to improve the **outcomes of the current equilibrium**.
- ▶ It is important to distinguish between these types of social ventures in their pure forms, but **in the real world there are probably more hybrid models than pure forms**.
 - ▶ Yunus used social activism to accelerate and amplify the impact of Grameen Bank, a classic example of social entrepreneurship.
 - ▶ By using a sequential hybrid – social entrepreneurship followed by social activism – Yunus turned microcredit into a global force for change.





Conceptualization and Definition of
Social Enterprise & Social
Entrepreneurship in Europe

Defourny & Nyssens (2008, 2010)

- ▶ Before 2008, “social entrepreneur”, “social entrepreneurship” and “social enterprise” have been used interchangeably.
 - ▶ “Social Entrepreneur”
 - ▶ emphasized by American foundations and organizations like Ashoka since the mid-1990s.
 - ▶ identify and support in various ways **individuals launching new activities dedicated to a social mission**, while behaving as true entrepreneurs in terms of dynamism, personal involvement and innovative practices.
 - ▶ Such a social entrepreneur brings about new ways of responding to social problems.
 - ▶ In Europe, the emphasis has been much more often put on the **collective nature of the social enterprise**, as well as on its **associative or cooperative form**, although the US approach is gaining some influence.
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“Social Entrepreneurship”

- ▶ has been conceptualized in rather precise ways in the late 1990s.
 - ▶ Stress the **social innovation processes** undertaken by social entrepreneurs.
 - ▶ Increasingly being used **in a very broad sense to a wide spectrum of initiatives, ranging from voluntary activism to corporate social responsibility** (Nicholls, 2006).
 - ▶ Between these two extremes, a **lot of categories** can be identified: individual initiatives, non-profit organizations launching new activities, public-private partnerships with a social aim, etc.



Difference between Americans and Europeans

- ▶ Americans tend to stress the “blurred boundaries” among institutional and legal forms as well as the “blended value creation” (profits alongside social value)
- ▶ Europeans rather stress the fact that social entrepreneurship most often takes place within the “third sector” (i.e. the private, not-for-profit sector).
- ▶ “Social Entrepreneurship” is the most encompassing one than “Social Enterprise” and “Social Entrepreneur”.



“Social Enterprise”,

- ▶ first appeared in Europe (a few years before it emerged in the USA), and more precisely in Italy in 1990.
 - ▶ The concept was to designate the pioneering initiatives for which the Italian Parliament created the legal form of “social cooperative” one year later.
 - ▶ Various other European countries have since passed new laws to promote social enterprises.
- ▶ The “EMergence des Entreprises Sociales en Europe”, (EMES) Network stresses the positioning of European social enterprises “at the **crossroads of market, public policies and civil society**” (Nyssens, 2006):
 - ▶ underline the “**hybridization**” of their resources
 - ▶ combine income from sales or fees from users with public subsidies linked to their social mission and private donations and/or volunteering.
 - ▶ contrasts with the US tendency to define social enterprises only as non-profit organizations more oriented towards the market and developing “earned income strategies” as a response to decreasing public subsidies and to the limits of private grants from foundations (Dees & Anderson, 2006)



EMES definition of “Social Enterprises”

(Defourny & Nyssens, 2010)

- ▶ **Not-for-profit private organizations** providing goods or services directly related to their explicit aim to benefit the community.
- ▶ Rely on a **collective dynamics** involving various types of stakeholders in their governing bodies, they place a high value on their **autonomy** and they **bear economic risks** linked to their activity.



EMES definition of “Social Enterprises”

▶ Four economic criteria:

- ▶ 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**.

▶ Five social criteria :

- ▶ 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**.



Convergences and Divergences between Europe and USA

Defourny & Nyssens (2010a): Convergences

▶ Social Mission

- ▶ Explicit aim to benefit the community
- ▶ Creation of 'social value', rather than the distribution of profit, is the core mission;

▶ Production of Goods and Services:

- ▶ social enterprises, unlike some non-profit organizations, 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;
- ▶ They are **directly involved** in the **production of goods or the provision of services on a continuous basis**.



Convergences: Economic Risks

- ▶ Social enterprises are generally viewed as organizations characterized by a **significant level of economic risk**.
 - ▶ Europe: the financial viability of social enterprises depends on the efforts of their members to secure adequate resources for supporting 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.
 - ▶ Although public opinion tends to associate the concept of economic risk to a market orientation, rigorous definitions, see an enterprise as an organization or an undertaking bearing some risk **but not necessarily seeking market resources**.
 - ▶ This concept largely shared by the 'social innovation school' in the USA.



Divergence between the 'social innovation' school and the 'earned income' school

- ▶ as to the economic risk **should not be overstated.**
- ▶ Viewing **social entrepreneurship** as a mission-driven business is increasingly common among business schools and foundations that foster more broadly business methods, not just earned-income strategies, for achieving social impacts.



Convergences: Economic Risks

- ▶ For ‘earned income’ school, 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 European 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. The Finish Act on social enterprise and the social economy program in Ireland also describe these organizations as market-oriented enterprises.
- ▶ Many Italian social cooperatives are financed through contracts that are passed with the public authorities in a more or less competitive market.



Divergences: Social Mission

- ▶ Various activities undertaken by for-profit firms to assert their corporate social responsibility began to be considered, by some authors, as part of the spectrum of social entrepreneurship.
- ▶ Social entrepreneurship may be viewed as a wide spectrum of initiatives or practices, even though there might be strong divergences as to what kinds of organizations and practices might constitute the extreme points of such a spectrum.



Divergences: Production of Goods and Services

- ▶ In Europe, production of goods and/or services does **itself constitute the way in which the social mission is pursued**. The nature of **the economic activity is closely connected to the social mission**.
- ▶ For social innovation school in USA, social enterprises implement **innovative strategies to tackle social needs through the provision of goods or services**.
- ▶ For the 'commercial non-profit approach' in USA, 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.



Divergences: Structure of Governance

- ▶ In Europe, SE have always been associated with a quest for **more democracy in the economy**.
- ▶ **Governance structure of SE has attracted much more attention in Europe** than in the United States.
 - ▶ In the European conception, SE are characterized by a high degree of **autonomy**.
 - ▶ The ideal-typical social enterprise is based on a **collective dynamics** and the involvement of different stakeholders in the governance of the organization.
 - ▶ Decision-making power is not based on capital ownership, again reflecting the quest for more **economic democracy**.
 - ▶ The power and prerogatives of shareholders are also **limited** by restrictions regarding the **distribution of profits**.



Divergences: Channels for the Diffusion of Social Innovation

- ▶ In Europe, the process of institutionalization of social enterprises has often been closely linked to the evolution of public policies.
 - ▶ The nature of social enterprises' mission appears to be a contested issue between promoters of social enterprises and public bodies.
 - ▶ Public schemes often frame their objectives in a way that is considered as too narrow by some promoters, with a risk of reducing social enterprises to the status of instruments to achieve specific goals that are given priority on the political agenda.



Divergences: Channels for the Diffusion of Social Innovation

- ▶ In United States, for the ‘social innovation’ school of thought, historically led by Ashoka.: social innovation is to expand through the growth of the enterprise itself and/or with the support of foundations bringing a leverage effect to the initiative through increased financial means and professional skills as well as through celebration and demonstration strategies.
- ▶ Such trajectories are not without risks, as a strong reliance on private actors may involve some perverse effects. The main ones could result from a kind of implicitly shared confidence in market forces to solve an increasing part of social issues in modern societies



Divergences: Channels for the Diffusion of Social Innovation

- ▶ Large segments of the non-profit sector in the US as well as the community and voluntary sector in the UK [To some extent, small NGOs & CED projects in HK] express major fears of excessive confidence in market-oriented social enterprises on the part of both private organizations (foundations and major corporations within CSR strategies) or public policies seeking to combat social problems while reducing allocated budgets.



Conclusion

- ▶ understanding of social entrepreneurship and social enterprises requires that researchers humbly take into account the **local or national specificities that shape these initiatives in various ways.**
- ▶ **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 replications of formula that will last only as long as they are fashionable**



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