

SOCIAL ENTERPRISE THE NEW ECONOMIC ENGINE

Social entrepreneurship is lauded for its efficient delivery of public services and for making not-for-profit organisations more financially self-reliant. But, says **Rebecca Harding**, the true economic value of social entrepreneurs is only now becoming clear.

James Williams is an entrepreneur. He is setting up a chain of children's adventure play areas with clamber equipment, soft play areas and a café. The uniqueness of his business concept is that the play areas are in inner cities and there will be careers advice, counselling, computing facilities, advice and resources, for parents to utilise while their children play.

"If you look around in places like Liverpool," he says, "there is nowhere within ten miles like this for kids, and nowhere at all like this for parents, especially women, to give them some breathing space, teach them to play with their kids and to find work or training if they want to." More than this, the groups

that flow to society as a whole when not-for-profit organisations become increasingly self-sufficient and independent from grants.

As the world's investors become more actively interested in a broader definition of business value creation, and as policy makers become ever-more interested in the role of entrepreneurship generally in fuelling economic growth, the role of social enterprise in creating economic and social value needs to be examined more closely. Yet this is where the evidence is weakest.

In particular, and despite the unquestioned interest in the subject, a single definition of social entrepreneurship remains elusive.

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will be staffed both by trained professionals and by younger people from deprived areas looking for work experience. "It's better to give these young people work rather than waiting for them to come in and pinch stuff," remarks James, somewhat wryly.

That this is a business venture is in little doubt. The revenue streams are commercial ones, and James and his wife, both former IT managers at British Telecom, have invested a great deal of personal capital in getting the project off the ground. Where there is a difference with a normal business, however, is that this project has a clear "double bottom line" in that it is trying to achieve social as well as economic objectives.

James is one of the growing army of social entrepreneurs who fall off the orthodox entrepreneurial radar screen both when it comes to understanding what he does and when it comes to raising cash for his business. "Social entrepreneurs tackle some of the toughest and most intractable challenges around", says Gregory Dees in "The meaning of social entrepreneurship", and their role in the general welfare system, according to the literature, is both under-estimated and misunderstood. Yet, some such as the ECT group,

The growth in social entrepreneurship globally over the last decade has been impressive, but the precise meaning of the term remains a matter of debate. This is a barrier to research.

There is a substantial body of case study material on how to be a good social entrepreneur. However, there is little or no theory; little systematic data at a national level; and nothing in the way of international comparisons of impact and types of social entrepreneurial activity. This renders the area of little interest to investors in particular since there is no estimation of the hard economic impact that these ventures create.

In search of a definition

The exercise of measuring social entrepreneurship is fraught with difficulty. One person's definition of a social entrepreneur is another person's definition of a volunteer or aid worker. Similarly, the meaning of "social enterprise" potentially covers everything from not-for-profit organisations, through charities and foundations to cooperative and mutual societies. The words of one expert interviewed captured both the interest in finding how much of this type of activity is going on and, equally, the problem in measuring

The meaning of "social enterprise" potentially covers everything.

providing doorstep recycling, or Greenworks, recycling office furniture, have multi-million pound turnovers while providing real community and social added value.

For the last 20 years, but particularly for the last 10 years, there has been a general belief that social entrepreneurship is a "good thing". It is seen as important for the economy, in terms of efficient delivery of public services; and the welfare benefits

how much of it there is: "Oh," he said, "You'll know a social entrepreneur when you see one. They are driven and focused, committed and tireless in the interests of solving social problems." An internationally renowned specialist in entrepreneurship research commented, "I gave up trying to measure it – it's too difficult to pin down."

In essence, social entrepreneurs are the entrepreneurs who, according to the website

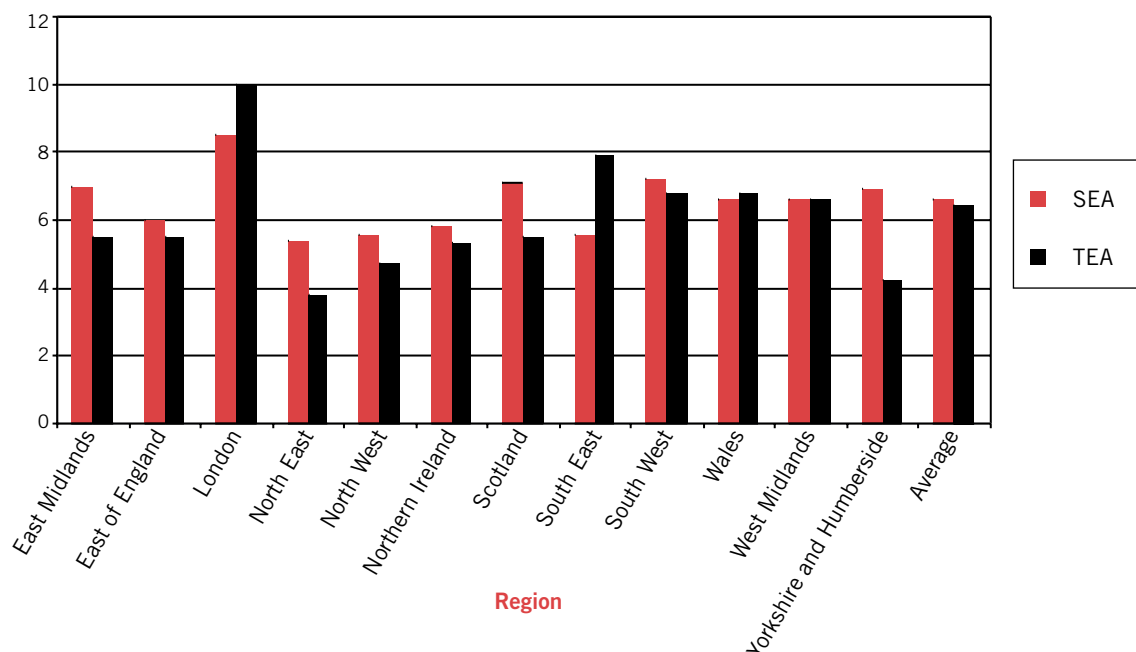


Figure 1 Comparisons of Social Entrepreneurial Activity and Total Entrepreneurial Activity by UK Region

Ashoka.org, “recognise when a part of society is stuck and provide new ways to get it unstuck”. They act as “change agents in the social sector” they innovate and act according to the desire to create and sustain social value and consider themselves to be accountable “to the constituencies they serve for the outcomes they achieve”. In short, they are one species within the genus entrepreneur. They are entrepreneurs with a social mission so any attempt to capture levels of social entrepreneurial activity must be able to distinguish between those individuals who participate in community or social groups and those who are actually motivated by social objectives to *instigate* some form of new activity or venture.

What makes matters more complicated is that not all social entrepreneurs will be working for revenues (either from grants or sales) and not all will be or

and social ownership are combined with trading viability”. In other words, as the UK’s Department of Trade and Industry explains, they are orthodox businesses with social objectives “whose surpluses are principally re-invested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners”. This means that any attempt to measure social enterprise has to be capable of identifying those *businesses* generating revenue from their activities that can be reinvested in their business or their community to meet their social goals.

Measuring social entrepreneurship

One of the research challenges, then, is to find a way of measuring both the levels of social entrepreneurial activity *and* the impact that social

Most authors agree that the key distinguishing feature of a social enterprise is their social aims and social ownership are combined with trading viability.

become social enterprises. Even when they do, the sectors in which they operate and the organisational structures of the ventures in which they are involved are quite different. However, most authors agree that the key distinguishing feature of a social enterprise is, as Gregory Dees puts it, that their “social aims

entrepreneurs have in terms of job and wealth creation if businesses like James’s are to be understood by the investment community. The UK’s Global Entrepreneurship Monitor study for 2003, which was based on a survey of 22,500 individuals across the UK, incorporated some →

→ questions into its questionnaire to try and do just that. Specifically it asked two questions:

- Are you, alone or with others, currently trying to start any kind of social, voluntary or community service, activity or initiative? This might include providing subsidised or free training, advice or support to individuals or organisations; profit making activity, but where profits are used for socially orientated purpose; or self-help groups for community action.
- Are you, alone or with others, currently managing any such social, voluntary or community service, activity or initiative?

Respondents who answered positively to either or both of these questions (minus double counting) were deemed “social entrepreneurs” and incorporated into an index of Socially Entrepreneurial Activity (SEA).

How much social entrepreneurship is there?

The results of this exercise were quite extraordinary. Some 6.6 per cent of the UK adult population of working age are involved in some form of activity that has community or social goals at its heart either as a start up venture or as owner-managers of that venture.

This rate is slightly higher than the level of mainstream Total Entrepreneurial Activity (TEA). And while there is a higher level of socially oriented entrepreneurial activity in London than anywhere else in the country (at 8.5 per cent of the adult population) the gap between London and the North East where this type of activity is lowest (5.4 per cent) is narrower than the gap for mainstream

entrepreneurial activity. Indeed in the least affluent regions of the UK, social entrepreneurship is actually more prevalent than mainstream entrepreneurship as shown in Figure 1.

What is particularly interesting about all this, however, is that women are far more likely to be social entrepreneurs than mainstream entrepreneurs – and the gap between male and female levels of entrepreneurship is much narrower for social entrepreneurs than it is for their mainstream counterparts. So, for example, men are roughly two and a half times as likely to be setting up a mainstream entrepreneurial business than women, but the gap is much narrower for social entrepreneurship (less than 20 per cent).

Not all of these activities will end up as commercially viable businesses, however, and it is important to be able to focus on those activities with potential for commercial purposes. To do this, GEM UK used a methodology that isolated the “social enterprises” by revenue or funding stream. Social enterprises were grouped into four sub-groups of social enterprises as follows:

- All public funds and no sales (29.6 per cent of group)
- No public funds and no sales (e.g. private sector donations) (17.5 per cent)
- Some public funds and some sales revenue (23.3 per cent)
- All sales revenue and no public funds (29.6 per cent)

Of those who answered “yes” to the question on sales revenue – broadly the third and fourth categories – we also asked the proportion of total revenue that was accounted for by sales.

Social Enterprise Income Stream	Median Jobs Created	Median Turnover (£ p.a.)
All public sector revenue	7	29,405
All private sector revenue	2	40,000
Mixed public sector/sales	10	201,270
All sales	4	106,432
Social entrepreneurs	6	40,000
Mainstream entrepreneurs	2	39,000

Table 1: Job Creation and Turnover Potential of Social Enterprises, Social Entrepreneurs and Mainstream Entrepreneurs

Note: The figures are median results for the whole UK sample that includes all enterprise activity and not just the largest firms. The median results for the whole sample yield lower turnovers than the mean as the distorting effects of very large firms are eliminated using this methodology.

The economic impact of social entrepreneurship

Our results suggest that social entrepreneurship generally, and social enterprise in particular is an

make a social difference. These entrepreneurs are highly motivated. They are as likely as mainstream entrepreneurs to see good business opportunities, think they have the skills to start a business and to

Mixed revenue streams and pure sales have higher turnover per employee than mainstream businesses in the GEM sample.

important, albeit relatively new, phenomenon. This still does little to demonstrate the vital importance of these businesses as engines of wealth creation. In order to do this, we examined how many jobs were created and turnover creation. The results are presented in Table 1.

The results suggest that social entrepreneurs are disproportionately effective at job creation – a finding that could have important implications. All forms of socially oriented organisation create more jobs on average than mainstream entrepreneurial enterprises and those categorised by mixed revenue streams and pure sales have higher turnover per employee than mainstream businesses in the GEM sample. However, the social enterprises with mixed revenue streams create five times as many jobs and just over six times the amount of turnover as mainstream entrepreneurial businesses. Incidentally, this is also the group where women are most likely to be engaged.

Investing in social enterprise

The findings suggest that at the very least social entrepreneurship and social enterprise should be considered as something that is as important as mainstream entrepreneurship.

James and millions like him across the world are engaged in ventures that both make money and

know entrepreneurs. Unlike their mainstream counterparts, however, making money is a by-product of their work. Making a difference is what they aim for.

This does not make their businesses unattractive propositions, however, as the figures on turnover and employment growth potential highlighted clearly illustrate.

Policy makers in the UK and the US are increasingly aware of this phenomenon as a means of regenerating deprived communities, a means of creating a socially inclusive enterprise culture and as a means of delivering public services in a professional and cost efficient way. In a post-Enron world, where fund managers are increasingly aware of their social, ethical and environmental stance, the performance and impact of social enterprises is clearly an area that merits further attention. ■

Resources

www.ashoka.org

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