



This is a draft of the entry for *Encyclopedia of the Social and Solidarity Economy* (forthcoming 2023) published by Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSSE). This work has been funded by the Government of the Grand Duchy of Luxembourg.

Social Enterprises

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Bibliographic information

Jacques Defourny and Marthe Nyssens. Forthcoming 2023. Social Enterprises. Edited by Ilcheong Yi, Peter Utting, Jean-Louis Laville, Barbara Sak, Caroline Hossein, Sifa Chiyoge, Cecilia Navarra, Denison Jayasooria, Fernanda Wanderley, Jacques Defourny, and Rocio Nogales-Muriel. *Encyclopedia of the Social and Solidarity Economy*. Cheltenham and Northampton, MA. Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSSE).

Or

Jacques Defourny and Marthe Nyssens. Forthcoming 2023. Social Enterprises. Edited by Ilcheong Yi et al. *Encyclopedia of the Social and Solidarity Economy*. Cheltenham and Northampton, MA. Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSSE).

June 2022

UNTFSSSE Knowledge Hub Draft Paper Series

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Abstract

Even though not all the practices they designate are new, the—recent—concept of social enterprise (SE) is clearly fashionable and continues to diversify, be it in its organisational, sectoral, geographical or other expressions. Social enterprises combine an entrepreneurial dynamic to provide services or goods with the primacy of a social mission. Beyond this minimal consensus, various tentative definitions have been put forward according to different “schools of thought”. In response to this conceptual diversity, various authors tried to identify SE categories and propose typologies. In the framework of the International Comparative Social Enterprise Models (ICSEM) project, four major social enterprise models have been theorized and tested across the world. Three of the four SE models have been confirmed based on empirical data: the social-cooperative model, the entrepreneurial non-profit model, and the social-business model. Far from aiming at any “unification”, these results highlight very different major models and show in a structured way that social entrepreneurship can emerge from all parts of our economies, including those—different from one part of the world to the other—that were considered previously.

Keywords: social enterprises; models; school of thought; social cooperative; entrepreneurial non-profits; social business

Introduction

Even though not all the practices they designate are new, the—recent—concepts of social entrepreneurship and social enterprise (SE) are clearly fashionable and they continue to diversify, be it in their organisational, sectoral, geographical or other expressions. This growing diversity and the rather open nature of these concepts are undoubtedly reasons for their rapid success, both with public officials and private-sector actors, who, each in their own way, are discovering or rediscovering new possibilities for promoting both entrepreneurial dynamics and social goals.

Most SE approaches in the literature, if not all, share the view that social enterprises combine entrepreneurial dynamics to provide services or goods with the primacy of a social mission. Beyond this minimal consensus, various tentative definitions have been put forward, but they often increased the feeling of confusion among researchers and social actors in this field. Indeed, the lack of a shared understanding is today acknowledged by most researchers, and it even seems reasonable to speak of the “impossibility of reaching a unified definition of social enterprise”.

1. Social enterprises and schools of thought

It is now well documented that the SE concept has emerged simultaneously in the US and in Europe throughout the 1990s and in reference to a set of new entrepreneurial initiatives seeking social goals. Defourny and Nyssens (2010) distinguish between three main “schools of thought”: the earned-income school, the social-innovation school, and the approach adopted by the EMES International Research Network.

For the earned-income school of thought, SE can be defined as any type of earned-income business or strategy to generate revenue in support of a social mission. Defourny and Nyssens (2010) distinguish the first stream, within this school, which they name the “commercial non-profit” approach, with a view to underlining a key difference (namely the fact that the organisations considered social enterprises by scholars belonging to this first stream were all non-profits), with later development, referred to as the “mission-driven business” approach, which embraced all types of organisation whether non-profits or for-profits, launching business activities to address social problems. To a large extent, the concept of social business as promoted by Yunus (2010) can be related to the “mission-driven business” approach. This concept was mainly developed to describe a business model that focuses on the provision of goods or services to 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’s version, do not receive any dividend, as profits are being fully reinvested to support the social mission.

The social-innovation school of thought focuses on the very specific nature of the social entrepreneur and on his/her creativity, dynamism, and leadership in coming up with new responses to social needs (Dees 1998). The emphasis here is on the systemic nature of innovation and the scope of its social or societal impact, rather than on the types of resources mobilised. The Ashoka organisation has played a pioneering role in promoting this way of thinking; since the early 1980s, it has supported entrepreneurs of this kind.

In Europe, the EMES International Research Network developed the first theoretical and empirical milestones of SE analysis (Borzaga and Defourny 2001). The EMES approach derives from extensive dialogue among several disciplines as well as among the various national traditions present in the European Union. It preferred from the outset the identification of three subsets of indicators:

- 1) Economic and entrepreneurial dimension of social enterprise
 - a) A continuous activity producing goods and/or selling services
 - b) A significant level of economic risk
 - c) A minimum amount of paid work
- 2) Social dimension of social enterprise
 - a) An explicit aim to benefit the community
 - b) An initiative launched by a group of citizens or civil-society organisations
 - c) A limited profit distribution
- 3) Governance-related dimension of social enterprise
 - a) A high degree of autonomy
 - b) A decision-making power not based on capital ownership
 - c) A participatory nature, which involves various parties affected by the activity

Such indicators were never intended to represent the set of conditions that an organisation should meet in order to qualify as a SE. 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 SEs. 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 SEs. Those indicators allow for the identification of new SEs, but they can also lead to designate as SEs older organisations being reshaped by new internal dynamics.

These indicators are focused on the internal governance of SEs, but the EMES approach is not restricted to this aspect. Indeed, according to EMES, SEs also have a special place in society. They pursue simultaneously economic, social and “political goals” at large. They are economic actors, but they do not rely exclusively on the rationality of the market. Indeed, as the EMES indicators state, the financial viability of SEs depends on their members’ efforts to secure the enterprise’s social mission. However, these resources can have a hybrid character: they may come from trading activities, but also—to borrow concepts from Polanyi’s substantive approach—from adequate resources to support redistribution and reciprocity (see the entries “SSE and finance sector” and “Financing for SSE”). SEs pursue social goals connected to their social mission; their political goals refer to their “political embeddedness”, which sheds light on the fact that SEs have a role in the constitution of a democratic framework for economic activity (Laville et al. 2006).

2.From schools of thought to typologies

In response to this conceptual diversity, various authors have attempted to identify SE categories and propose typologies. The degree of market reliance is certainly a dominant criterion in the eyes of many researchers looking for a basic SE typology. Dees (1996) paved the way for such an approach when he presented SEs along a single-dimensional continuum between two extremes corresponding respectively to a “purely philanthropic” pole and a “purely commercial” one. From the point of view of Dees’ spectrum, all SEs can be seen as “intermediate organizations” and they may all be labelled as “hybrids” (Doherty et al. 2014).

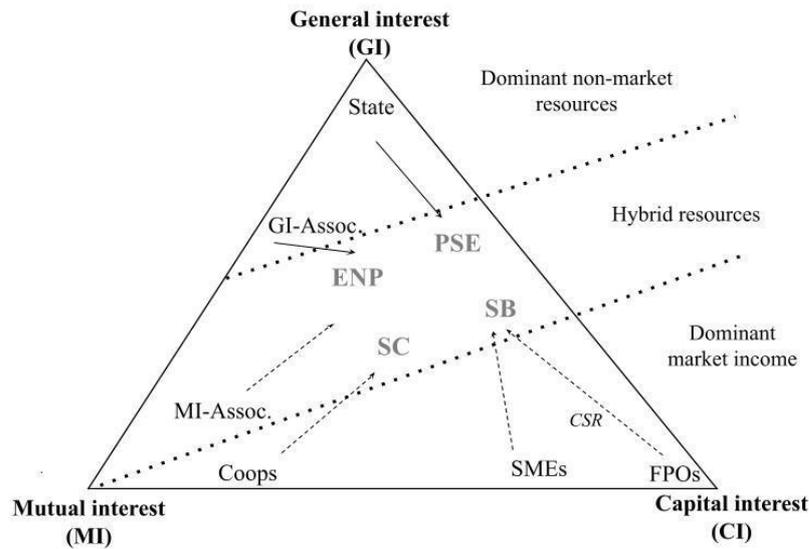
Relying mainly on the US SE landscape, Young *et al.* (2016) proposed the metaphor of a “social enterprise zoo”, in which different types of animals seek different things, behave differently, and may (or may not) interact with one another in both competitive and complementary ways... just like SEs, which combine social and market goals in substantially different ways. The authors propose “six major species of zoo animals”: for-profit business corporations developing programs of corporate social responsibility, in which social goals play a strategic role; social businesses looking for an explicit balance between social impact and commercial success; social cooperatives maximizing their members’ welfare while also including a general public-benefit dimension; commercial non-profit organizations driven by their social mission; public-private partnerships; and hybrids.

Kerlin (2017) adopted an institutional perspective identifying key features of macro-institutional frameworks to suggest how any set of socioeconomic and regulatory institutions at the country level tends to shape a specific major SE model per country.

3.Theorizing the Diversity of SE Models

While taking stock of these various typologies, which were inductive or/and country-specific, Defourny and Nyssens (2017) tried to go one step further by providing strong theoretical foundations to explain how various “institutional logics” in the whole economy may generate different SE models. They developed a framework by combining principles of interest and resource mixes to identify institutional trajectories generating four major SE models (see Figure 17.1).

Figure 17.1. Institutional logics and resulting SE models



Source : (Defourny and Nyssens 2017)

When speaking about "the economy", the first type of organization that is generally identified is the "for-profit firm" which is driven by capital interest and relies mainly on market resources. For-profit enterprises however face market failures, which call for an intervention of the state, driven by the general interest, and relies mainly on non-market resources. Some associations seeking a public benefit are located close to the general interest angle, although not in the vertex itself, as their general interest (the community they serve) is usually not as wide as the one served by the state. There is also a third principle, which is often neglected when describing the socio-economic purpose, and it involves mutual interest. Mutual interest refers to services or goods provided to members under their own control. In other words, mutual benefit organizations include all traditional types of cooperative enterprises, which usually rely mainly on market resources, as well as voluntary associations driven by the interest of their members (such as sports clubs, professional associations, etc.), which usually rely more on non-market resources.

On the basis of this triangle, they identified four major social enterprise models. These four models are characterized by different institutional trajectories which can be grasped through two movements.

The first movement could be observed among public and non-profit organisations, namely the movement towards marketization; it results from dramatic changes in the funding of goods and services of general interest. Both public and non-profit

organisations were traditionally relying mainly on non-market income; they used to be fully subsidized by public authorities or to mix public financing and philanthropic resources. Nowadays, they are pushed towards more market-oriented activities in order to complement their existing resources, thus giving rise to two SE models.

1. **“Entrepreneurial nonprofits (ENP)”** are typically non-profit organizations developing any type of earned-income business in support of their social mission. A growing number of associations are developing income-generating strategies that can take various forms. Some associations are developing market activities as a support for their social mission. Other associations develop market activities to finance their activities linked to their social mission. Many associations are also encouraged to develop more entrepreneurial dynamics when they find themselves competing in public markets with private for-profit enterprises and public operators.
2. **“Public-sector social enterprises (PSE)”** result from a movement toward the marketization of public services which embraces “public-sector spin-offs”. These SEs are usually launched by local public bodies, sometimes in partnership with third-sector organizations, to provide services that are outsourced (such as care services) or new services (such as those offered by work-integration social enterprises).

The second movement corresponds to a shift from the capital and mutual interest toward the general interest.

1. **“Social cooperatives (SC)”** aim at implementing democratic or participatory forms of governance, i.e. equal voting power in the general assembly, and a limitation of the remuneration of capital shares. However, this model goes beyond that of most traditional cooperatives, in that it combines the pursuit of the interests of its members with the pursuit of the interests of the community as a whole or of a specific target group. The legal status of the social cooperative emerged in Italy in the early 1990s. Since then, new laws, similar to the social-cooperative law, have been passed in other countries. Depending on the legislation in force, other legal forms may be close to the cooperative status, even though they differ from a strictly legal point of view. Cooperative-type social enterprises may also result from the evolution of mutual-interest associations that wish to develop their economic activities in order to respond to a specific social problem and, in so doing, move towards a more explicit general-interest objective.
2. **“Social businesses (SB)”** are rooted in a business model driven by shareholders’ interest. However, they mix this logic with a “social entrepreneurial” drive which is aimed at the creation of a “blended value” in an effort to balance and better integrate economic and social purposes. In this SE model, it is then a question of aiming at and balancing financial results with social—and sometimes also environmental—results (double/triple bottom line).

At first sight, when looking at Figure 17.1, the four SE models seem to arise from new dynamics at work in pre-existing organizations. Thus, it may seem that social enterprises cannot be created from scratch. Such an interpretation would be clearly misleading, as a new (social) enterprise can emerge everywhere in the triangle; its location will depend on its general-interest orientation and on the way in which it balances the social and economic objectives with the financial resources. It should also be stressed that this

basic typology does not deny the existence of the many hybrid models that can be observed in the field. For example, partnerships between for-profit companies and associations or partnerships involving local public authorities are relatively common.

4. Testing Social Enterprise Models across the World

These “theorised” models were put to test on the basis of the data collected through a large survey which was carried out by researchers from 43 countries across the world. The survey operated through an international research project named the “International Comparative Social Enterprise Models (ICSEM) Project”. The empirical data collected were statistically analysed with a central objective: to see if groups of enterprises emerged that were sufficiently similar, on a set of characteristics, to appear as groups that were significantly homogeneous and, at the same time, significantly distinct from one another. This statistical processing of the ICSEM database confirmed the existence, at the global level, of three of the four major SE models proposed in the typology: the social-cooperative model, the entrepreneurial non-profit model, and the social-business model. The data collected shows that these three major models of social enterprise are found in almost all the countries covered, i.e. 39 countries out of the 43 countries studied (Defourny, Nyssens and Brolis 2021).

Regarding the social cooperative model, two groups emerged. Although organizations in the first cooperative group produce a diversity of goods and services, practically all these activities are meant to serve social objectives. These objectives aim to create jobs for the unemployed, to generate income for poor individuals, to pursue community development, and to address ecological issues, etc. In the second cooperative group, most social enterprises provide financial and insurance services. Access to financial services has always been a main concern for poor populations and a central issue for a substantial component of the cooperative movement.

Four groups are converging towards an entrepreneurial nonprofit SE model. Two of them include organizations that are mainly driven by a mission of employment generation and may therefore be considered as work-integration social enterprises (WISEs) (see the entry “Work integration and SSE”), whereas the other two groups cover a wider spectrum of social missions. The largest “nonprofit-type” group includes rather large organizations providing mainly education, health, and social services. The other one covers much smaller organizations, providing a very wide spectrum of services to foster local development, ecology, access to education, and capacity building. These “nonprofit-type” organizations display a much wider diversity of resources than what is found in the two cooperative-type groups, with a maximum 40% of income coming from the market. Such a resource mix could be seen as somehow surprising since a common approach to SE sees it as “a market solution to a social problem”. However, for the EMES school of thought, the entrepreneurial dimension of social enterprise lies, at least partly, in the fact that the initiative bears a significant level of entrepreneurial risk—but not necessarily a market risk. In this broader perspective, the resource mix which can best support the social mission is likely to have a hybrid character, as it may combine trading activities with public subsidies and voluntary resources.

A last smaller group is indicating the existence of an SME model of social business bringing together the newest and smallest social enterprises in the sample. It includes for-profit enterprises that combine a strong commercial orientation with a social mission. The data shows that these enterprises have business models that are very

similar to those of cooperative-type organisations and that they too rely on market resources. However, their governance models are markedly different. In this last group, many enterprises are in the hands of a single person. With regard to rules and provisions for profit distribution, it is striking that in the majority of organisations in this group, there are no rules limiting profit distribution. Some of these companies adopt an accreditation that requires social objectives to be predominant in their mission (e.g. the “B Corp” accreditation), but generally, these accreditations do not impose any limits on profit distribution. This does not mean that all or most of the profits are usually distributed to the owners, as a fairly common practice involves reinvesting the profits into the business. As this combination of economic and social objectives is implemented within less regulated frameworks than those defined by the rules and governance structures of “cooperative-type” social enterprises, the balance between these (potentially conflicting) objectives and the evolution of this over time raises the question of the sustainability of the social mission.

The existence of a public-sector SE model is not confirmed by the identification of a distinct group of enterprises. However, one should not conclude too quickly that the public sector is absent from the field of social enterprise. In fact, it is found within some clearly identified groups, often involved as a partner in the creation of social enterprises—in particular, work integration enterprises (see the entry “Work integration and SSE”). It is also possible that local researchers, considering a priori SEs as inherently private initiatives, did not consider public-sector initiatives as potential SEs.

5.Promises and challenges

An in-depth understanding of the different SE models makes it possible to identify future challenges that are anything but trivial.

In the case of the social-business model, it can be expected that the actors of the traditional private sector will play a leading role in the development and configuration of social entrepreneurship. At play here is a belief, widely held in the business world, that market forces have the capacity to solve an increasing share of social problems. Therefore, while some stress the need to mobilise different types of resources, it is not impossible that the current wave of social entrepreneurship acts in part as a process of prioritising and selecting social challenges according to their potential to be addressed in an entrepreneurial and market-based way. Certainly, some innovative responses may emerge from social business, but from a societal point of view, one can only doubt the relevance of such a classification of social needs. This type of questioning is increasingly relevant in countries where the logic of privatisation and marketisation of social services has gone the furthest.

Many SEs that are increasingly supported by proactive public policies—sometimes aimed at reintegrating marginalised workers, sometimes at providing services to vulnerable populations—face another type of challenge. The risks inherent in such public support are, on the one hand, that social innovation becomes “frozen” at a certain stage by its institutionalisation and, on the other hand, that social enterprises be instrumentalised within the framework of political agendas that take away most of their autonomy and creativity (see the entries “SSE and Social Policy” and “SSE and public policies”).

Despite such risks, the emergence of different entrepreneurial forms centred on social goals and the identification of three—or even four—major models open up several interesting perspectives. First, this identification allows an additional step in the clarification of the landscape of social enterprises, too often “caricatured” and described by monolithic discourses. Far from aiming at any “unification”, it highlights very different major models, which themselves open up to a diversity of effective practices within them. Secondly, and most importantly, it shows in a structured way that social entrepreneurship can emerge from all parts of our economies, including those—different from one part of the world to the other—that were least thought of.

So why not recognise, in these four major SE models, the emergence of new distributions of roles and tasks in the pursuit of the common good? Historically, the state has often been tempted to take sole responsibility for the general interest, even though traditions of solidarity or philanthropy have almost always coexisted with official forms of public monopoly. The recognition of the complementarities between public and associative action is, after all, very recent and, moreover, far from being achieved in many regions of the world. In this context, the emergence—or rather the strengthening—of genuine associative entrepreneurship, as well as the development of a new family of cooperatives more focused on the general interest, underlines the relevance and the potential of a new sharing of responsibilities, as well as the need to deepen partnerships of all kinds around specific issues of the common good. Within such partnerships or along more individual lines, a growing number of entrepreneurs (concerned with integrating a general-interest dimension into the heart of economic activity) are also questioning the pursuit of profit at all costs.

Identifying this diversity is not only about recognising that social enterprise can generate social impacts by providing goods and services to meet unmet needs through a variety of models. It also means acknowledging the institutional dimension of these different models, i.e. their potential role in the development of norms and regulations, both at the level of the organisation and beyond, through the “institutional work” of all actors. It is essential to not reduce social enterprises to a space dedicated to “alternatives”; indeed, through their innovative dynamics in many areas of activity, they carry a transformative potential for the whole economy in search of sustainable models. By going beyond mere “trade-offs” between economic, social, and environmental performance, particularly through their articulation with the social movements that support them, they can contribute to raising society’s awareness and to generating or strengthening a willingness to change on a large scale. Although the social and ecological transition cannot be fully achieved without deep systemic transformations at the macro level, social enterprises also contribute to the evolution in the patterns of production and consumption. The challenge is therefore to take the full measure of their contribution and broaden their influence. In this sense, social enterprises are indeed a driving force for the transition.

Of course, the path of the social enterprise, in the midst of “isomorphic” pressures, will never be an easy one (see the entry “SSE and co-optation, isomorphism and instrumentalization”). This is why it undoubtedly has much to gain by maintaining and strengthening its links with the social and solidarity economy, which is its most frequent and natural melting pot and which has acquired a great deal of experience on how to maintain its own identity while interacting with the market, public authorities, and civil society.

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