

**SOCIAL ENTERPRISE IN THE UNITED STATES AND ABROAD:  
LEARNING FROM OUR DIFFERENCES**

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## INTRODUCTION

For over two decades, social enterprise movements in and outside the United States have taken on growing importance. Broadly defined as the use of non-governmental, market-based approaches to address social issues, social enterprise has become an increasingly popular means of funding and supplying social initiatives around the world. Yet while the trend and its ultimate objectives are similar, there remain vast differences in the conceptualization of social enterprise among different world regions. These differences stem from contrasting forces shaping and reinforcing the movement in each region. To date, little has been written comparing and contrasting American and international conceptions of social enterprise resulting in difficulty communicating on the topic and missed opportunities to learn and build on foreign experience. Research has found that while definitions of social enterprise tend to vary within world regions themselves, even broader divisions exist among regions in terms of understanding, use, context, and policy for social enterprise. This chapter compares and contrasts the conceptualization and context of social enterprise in the United States and Western Europe and examines the forces shaping and reinforcing the movement in each region.

## CONTRASTING DEFINITIONS OF SOCIAL ENTERPRISE

### *United States*

The concept of social enterprise in the United States is generally much broader and more focused on enterprise for the sake of revenue generation than definitions elsewhere. This remains true even when considering the definitional divide in the United States between academics and practitioners. In U.S. academic circles, social enterprise is understood to include those organizations that fall along a continuum from profit-oriented businesses engaged in socially beneficial activities (corporate philanthropies or corporate social responsibility) to dual-purpose businesses that mediate profit goals with social objectives (hybrids) to nonprofit organizations engaged in mission-supporting commercial activity (social purpose organizations). For social purpose organizations, mission-supporting commercial activity may include only revenue generation that supports other programming in the nonprofit or activities that simultaneously generate revenue and provide programming that meets mission goals such as sheltered workshops for the disabled (Young, 2001, 2003a). This broad definition is consistent with how business schools at leading American universities understand social enterprise (Dees, 1994, 1996, 1998).<sup>1</sup> This definition is also used by many social enterprise consulting firms who advise nonprofits and for-profits alike on social enterprise development.<sup>2</sup>

However, outside academia and consulting firms, much of the practice of social enterprise in the United States, termed as social enterprise, remains focused on revenue generation by nonprofit organizations (specifically those registered as 501(c)(3) tax-exempt organizations with the United States Internal Revenue Service). For example, the *Social Enterprise*

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<sup>1</sup> See also, for example, websites of the Social Enterprise Initiative at the Harvard Business School, the Center for the Advancement of Social Entrepreneurship at Duke University's Fuqua School of Business, and the Research Initiative on Social Entrepreneurship at the Columbia Business School.

<sup>2</sup> For example, Community Wealth Ventures, The Social Enterprise Group, Origo Social Enterprise Partners.

*Magazine Online* defines social enterprise as, “Mission oriented revenue or job creating projects undertaken by individual social entrepreneurs, nonprofit organizations, or nonprofits in association with for-profits.” The Social Enterprise Alliance, a national membership organization, more narrowly defines it as, “Any earned income business or strategy undertaken by a nonprofit to generate revenue in support of its charitable mission.” Moreover, foundations sponsoring projects in the area of social enterprise tend to focus more on the nonprofit side.<sup>3</sup> There are also some few business schools and social enterprise consultants that choose to focus solely on nonprofits.<sup>4</sup> In some circles, due to the academic use of the phrase that includes business-based charitable activities, the nonprofit type of social enterprise is distinguished by using such phrases as: nonprofit social enterprise, nonprofit enterprise, nonprofit ventures, enterprising nonprofits.

### ***Western Europe***

In Western Europe, the concept of social enterprise is roughly drawn along the same divide but with variations within the two streams of thought and less distinction between practitioners and academics. One school of thought stresses the social entrepreneurship dynamic developed by firms who seek to enhance the social impact of their productive activities. In this line, the literature often highlights the innovative approaches to tackling social needs that are developed as businesses are fostered (Grenier, 2003), mainly through nonprofit organisations but also in the for-profit sectors (Nicholls, 2005). In this latter case, this idea has to do, at least partially, with the 'corporate social responsibility' debate.

Another stream limits the analysis to the field of social enterprises belonging to the third sector and includes social cooperatives (Nyssens and Kerlin, 2005). This understanding of social enterprise is being developed by university researchers and scholars cooperating in the EMES Research Network.<sup>5</sup> The research effort is, among other things, establishing a social enterprise “ideal type” with the understanding that social enterprises not precisely adhering to the “ideal type” characteristics are still nonetheless included in the sphere of social enterprise. According to EMES the defining characteristics of the social enterprise “ideal type” include:

- 1) A continuous activity producing goods and/or selling services;
- 2) A high degree of autonomy;
- 3) A significant level of economic risk;
- 4) A minimum amount of paid work;
- 5) An explicit aim to benefit the community;
- 6) An initiative launched by a group of citizens;
- 7) A decision-making power not based on capital ownership;
- 8) A participatory nature, which involves the persons affected by the activity;

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<sup>3</sup> Examples include the Venture Fund Initiative of The Rockefeller Foundation, the *Powering Social Change* report funded by Atlantic Philanthropies and the David and Lucille Packard Foundation, projects of the Roberts Enterprise Development Fund a philanthropic program of The Roberts Foundation, and the *Enterprising Nonprofits* report commissioned by The Pew Charitable Trusts among others.

<sup>4</sup> For example, the Yale School of Management-The Goldman Sachs Foundation Partnership on Nonprofit Ventures and Seattle Social Enterprise Consultants.

<sup>5</sup> The EMES (The Emergence of Social Enterprise in Europe) Project begun in 1996, conducts research on social enterprise in European Union countries with funds from the European Commission. It is the basis for the European EMES Network that annually holds international conferences on social enterprise in Trento, Italy.

9) Limited profit distribution (Defourny, 2001:16-18).

In comparing the two approaches to social enterprise, the U.S. nonprofit definition does not allow any profit distribution while the European definition allows at least some mainly due to the inclusion of cooperatives in the definition. Also, social enterprise in Europe is viewed as belonging to the 'social economy' where social benefit is the main driving force.<sup>6</sup> In the United States, the concept of a social economy is not used and nonprofit social enterprises are often discussed as operating in the market economy.

Different countries in Western Europe focus more or less on the two trains of thought just outlined with the term at times becoming associated with a very specific set of services. In the United Kingdom, the central government's Department of Trade and Industry (DTI) defines social enterprise as "businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners" (DTI, 2004). Also in the United Kingdom, the West Midlands Social Economy Partnership (WMSEP) defines social enterprise as "a collective term for an organization that is driven by particular social and community values, whilst aiming to operate effectively and sustainably within a competitive business framework i.e., helping the community as well as maintaining a viable business" (WMSEP, 2004).

In Belgium, as in a number of European countries, social enterprise has a dual meaning. The first meaning generally speaks to service organizations that are developing commercial activities. The second refers to those cooperatives or associations with initiatives specifically "aimed at the occupational integration of people excluded from the labour market" (Defourny and Nyssens, 2001:47). This second definition stems from the specific social service need around which social enterprises have developed in Europe causing them to be associated with employment creating initiatives. This common definition is most closely aligned with the American academic concept of a social purpose organization whose programming for participants includes activities that simultaneously generate revenue. In Europe, social enterprises come in a variety of forms including employee development trusts, social firms, intermediate labor market organizations, community businesses, or charities' trading arms (OECD, 2003:299).

As alluded to in the European EMES definition, it is often assumed that social enterprise in Europe, as opposed to the U.S., involves some work or participatory contribution by those benefiting from the programming. For example, cooperatives are commonly understood as a basic type of social enterprise and it appears their inclusion has influenced the overall direction of the definition. The European emphasis on participation also extends to the management of the social enterprise. Governing bodies are made up of a diverse group of stakeholders that may include beneficiaries, employees, volunteers, public authorities, and donors among others. What sets them apart is their use of a formal democratic management style that is not a requirement of social enterprise in the United States (Defourny, 2001). Indeed, Young and Salamon state, "In Europe, the notion of social enterprise focuses more heavily on the way an organization is governed and what its purpose is rather than on whether

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<sup>6</sup> The social economy in Europe mainly consists of the following types of organizations: cooperatives, mutual organizations, associations, and foundations (OECD, 2003).

it strictly adheres to the nondistribution constraint of a formal nonprofit organization” (2002:433; see also Borzaga and Santuari, 1998). Multi-stakeholder cooperatives, as a distinct form of cooperative, are becoming increasingly popular in Europe and are even recognized in some national level legislation (Münkner, 2003; Levi, 2003; Lindsay et al, 2003).<sup>7</sup>

As this comparison of American and European definitions shows, the term social enterprise appears to have been assigned to mean different things in the two regions. In Europe, with the exception of the United Kingdom, social enterprise has generally come to mean a social cooperative or association formed to provide employment or specific care services in a participatory framework. In the United States, it generally means any type of nonprofit involved in earned income generation activities. Though the United States has numerous worker cooperatives that are similar to European social cooperatives, these entities have not been included in the American definition of social enterprise.

It is interesting to note that international organizations caught in the middle due to their work on both sides of the Atlantic choose either the American or European definition of social enterprise rather than a synthesis of the two. For example, social enterprise is defined by the Organization for Economic Cooperation and Development (OECD) as “any private activity conducted in the public interest, organized with entrepreneurial strategy, but whose main purpose is not the maximization of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment” (OECD, 1998:12). A recent Counterpart International report outlining its experience with social enterprise development in the Ukraine (a project funded by the US Agency for International Development 1997-2002) defines social enterprise as “a generic term for a nonprofit business venture or revenue-generating activity founded to create positive social impact while operating with reference to a financial bottom line” (Alter, 2002:5).

## **HISTORICAL FACTORS PROMOTING AND SHAPING SOCIAL ENTERPRISE**

### ***United States***

Differences in definition stem from the different contexts in which the concept of social enterprise developed in Western Europe and the United States. These historical factors help explain, in part, why in the United States the emphasis is more on revenue generation while in Europe the revenue generation activity is combined with work or participatory activity of program beneficiaries. In the U.S., the use of commercial activities by nonprofits to support mission-related activities has been in practice from the very foundation of the country when religious and community groups held bazaars and sold homemade goods to supplement voluntary donations (Crimmins and Keil, 1983). The term *social enterprise*, however, was first developed in the 1970s to define business activities nonprofits were starting as a way to create job opportunities for disadvantaged groups (Alter, 2002).

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<sup>7</sup> For example, in Italy, the 1991 Law 381 established the social cooperative with three main categories of share/stakeholders: lending or funding members (65 percent), beneficiary/user members (5 percent), and volunteer members (20 percent) (Thomas, 2004). France also recently introduced the Sociétés Coopératives D’Intérêt Collectif with a multi-stakeholder strategy (see Lindsay and Hems, 2004).

The expansion of social enterprise as a defined concept in the U.S. began when nonprofits experienced cutbacks in government funding they had grown to rely on. Starting with The Great Society programs of the 1960s, the federal government invested billions of dollars in poverty programs, education, health care, community development, the environment and the arts. Rather than create a large bureaucracy, many of these funds were channeled through nonprofits operating in these areas spurring on the expansion and creation of these organizations (Young, 2003b; Salamon, 1995; Hodgkinson et al, 1992). Responding to a downturn in the economy in the late 1970s, the 1980s brought welfare retrenchment and large cutbacks in federal funding resulting in the loss of some \$38 billion for nonprofits outside the healthcare field (Salamon, 1997). Nonprofits began to seize on social enterprise as a way to fill the gap left by government cutbacks dramatically expanding the use of nonprofit commercial activity (Crimmins and Keil, 1983; Young, 2003b; Eikenberry and Kluver, 2004). As Salamon states, “Between 1977 and 1989, nearly 40 percent of the growth of social service organization income...came from fees and other commercial sources” (1993:24). Along with this expansion the term evolved to take on the broader meaning of almost any kind of commercial activity undertaken in the pursuit of social goals. Thus, in the United States, at least initially, existing social service nonprofits took on social enterprise activities as a way to finance the provision of services already in place with the result that social enterprise is often a separate, usually outside activity supporting a broad range of social services.

Data from the National Center for Charitable Statistics at The Urban Institute suggest that social enterprise continues to be on the rise in the United States. Using a database of financial information that nonprofits file with the U.S. Internal Revenue Service, the commercial activities of a set of nonprofits were tracked over two years. The set selected contained nonprofit organizations most likely to be engaged in commercial activities and included human service, youth development, environmental quality, and employment service organizations. Commercial revenue included program service revenue, net income from sales of goods, and net income from special events and activities. Data analysis showed that from 1999 to 2001 overall commercial revenue rose 20% from \$40.6 to \$48.8 billion while the number of nonprofits involved in revenue generation increased only 8% from about 46,500 to over 50,000 (NCCS/GuideStar National Nonprofit Database).

### ***Western Europe***

In Western Europe, the trend towards social enterprise emerged somewhat later than in the United States and was focused on the simultaneous development of public interest services and diversification of revenue generation in the third sector. With a fall in economic growth and increased unemployment that began at the end of the 1970s and continued into the 1990s,<sup>8</sup> many European welfare states came into crisis. Budgetary constraints were the main cause but the crisis was also in terms of their effectiveness and legitimacy (Borzaga and Defourny, 2001; Spear et al, 2001; Borzaga and Santuari, 2003). Legitimacy was particularly undermined in the area of unemployment as policies especially for the long-termed

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<sup>8</sup> Many countries of the European Union experienced a rise in unemployment from 3 or 4 percent to more than 10 percent through the 1980s and 1990s. Through the 1990s, over 40 percent of this figure were the long-termed unemployed (without employment for more than a year) in contrast with 12 percent in the United States and 15 percent in Japan (Defourny, Favreau, Laville, 2001:5)

unemployed (including the disadvantaged and low-skilled) proved ineffective (Borzaga and Defourny, 2001).

Retrenchment of the welfare state followed, characterized by decentralization, privatization, and a reduction in services. As a result of this and growing unemployment a number of social service needs arose for which there were no adequate public policy schemes. New social enterprises, mainly in the third sector, began responding to emerging needs including solutions for housing problems experienced by increasingly marginalized groups, childcare services to meet new needs resulting from socio-economic changes, new services for the elderly given the rapid aging of the population and changes in family structures, urban regeneration initiatives, employment programs for the long-termed unemployed, etc. Most of these pioneering social enterprises in Europe were founded in the 1980s by civil society actors: social workers, associative militants, representatives of more traditional third sector organizations, sometimes with the excluded workers themselves (Nyssens and Kerlin, 2005).

Thus, the kinds of services supported by social enterprise are fewer in Europe (when compared to the wide range supported by social enterprise activity in the United States) because European social enterprises only addressed those particular areas the welfare state had retreated from or had not been able to meet demand for (i.e. employment programs for the long-termed unemployed, personal social services). Naturally, the extent that social enterprises fill particular service needs varies depending on the welfare state and circumstances in each European country.

## **LEGAL ENVIRONMENT FOR SOCIAL ENTERPRISE**

The legal context for social enterprise in the United States and Western Europe reflects the difference in government involvement on the issue. It is examined here in relation to nonprofits (501(c)(3)s) in the United States and associations and cooperatives in Europe.

### ***United States***

Since the 1950s the U.S. federal government has used the loosely defined Unrelated Business Income Tax (UBIT) to tax nonprofit revenue that is not related to an organization's exempt purposes (Cordes and Weisbrod, 1998). Specifically, the IRS defines unrelated business income tax as "...income from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose or function except that the organization needs the profits derived from this activity" (IRS, 2004). State governments that collect corporate income tax have created similar unrelated business income taxes for nonprofits.

Though the different levels of U.S. government attempt to regulate the for-profit activities of nonprofits, critics point out that, "in practice...it has proved administratively difficult for federal, state, and local taxing authorities to differentiate taxable and nontaxable commercial activities" (Cordes and Weisbrod, 1998:85; see also Simon, 1987). This situation has left nonprofits wary of engaging in certain types of revenue generating activities for fear of compromising their charitable tax exempt status. On the other hand, it has for-profit businesses claiming nonprofit enterprises have an unfair competitive edge because they do not always pay taxes on the same services and products that for-profits do (Leavins and Wadhwa, 1998; Crimmins and Keil, 1983). In the United States virtually no new policy has been

created over the past 50 years to accommodate the business activities of the growing number of nonprofits involved in social enterprise.

### *Western Europe*

In Western Europe, most social enterprises operate under the legal form of either a nonprofit association or a cooperative. Social enterprises are established as associations in those countries where the legal definition of association allows a degree of freedom in selling goods and services on the open market. In countries such as Sweden, Finland, and Spain where associations are more limited in this regard, social enterprises tend to be created under the legal form for cooperatives (See Table 1 for a country comparison of association laws) (Borzaga and Defourny, 2001). As such, unlike in the United States, cooperatives with social and employment objectives are also deemed social enterprises. Employment focused cooperatives are included in a specific class of social enterprises called Work Integration Social Enterprises (WISE).<sup>9</sup> Borzaga and Defourny note a possible convergence of associations and cooperatives as associations adopt more entrepreneurial activities and cooperatives increasingly offer social benefits to nonmembers (2001).

Unlike in the United States, laws for social enterprise as a unique entity have been developed in a number West European countries particularly where there are restrictions on associations carrying out commercial activities (CEC, 2001). These laws aim to “encourage the entrepreneurial and commercial provision of social and welfare services and to increase the participation of women in labor markets, whilst involving various stakeholders (workers, voluntary workers, target groups, and municipalities) in the production process” (CEC, 2001:25).

Italy was the first to introduce such legislation with its ‘A- and B-type social cooperatives’ in 1991 and it has been successful in increasing the number of this type of organization over the years. Belgium introduced legislation for a ‘company with a social purpose’ in 1995, Portugal created the ‘social solidarity cooperative’ in 1998, and Greece the ‘social cooperative with limited liability’ in 1999 (Defourny, 2001). France introduced the ‘*societe co-operative d’interet collectif*’ (cooperative society of collective interest) in 2001. This legislation was supported by the European Commission’s Digestus Project begun in October 1998 that proposes legal changes to member states with the goal of promoting social enterprise along the Italian model of co-operative enterprise (Lindsay et al, 2003). New legal entities tend to adopt the cooperative form as it emphasizes entrepreneurial behavior (Borzaga and Defourny, 2001). The newest organizational form for social enterprise in Europe is the ‘community interest company’ introduced in the United Kingdom in 2005.

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<sup>9</sup> The main purpose of work integration social enterprises is “the social and occupational integration of disabled or socially marginalized people, while providing them adequate follow-up or training for a sustainable integration, within the enterprise or with a regular employer” (Spear and Bidet, 2004:8).

## INSTITUTIONAL ENVIRONMENT FOR SOCIAL ENTERPRISE

### *United States*

The institutional environments for social enterprise in the United States and Western Europe tend to reflect a private/business focus in America and a government/social service focus in Europe. The supportive institutional context in the United States largely consists of private organizations that provide financial support, education, training, research and consulting services for social enterprise. One of the most significant contrasts is that in the U.S. most outside financial and other support for strategic development of social enterprise comes from private foundations as opposed to government (Paton, 2003).

### *Strategic Development of Social Enterprise*

Private foundation support for the development of social enterprise was begun in the 1980s and 1990s by a number of organizations. Some focused on basic information collection on social enterprise and the creation of networks (Kellogg Foundation, Kauffman Foundation, Surdna Foundation, Rockefeller Foundation). Others turned their support towards social enterprise start-ups (Roberts Enterprise Development Fund), social enterprise business competitions (Goldman Sachs Foundation, Pew Charitable Trusts), and increasingly towards individual social entrepreneurs through intensive education programs and/or grants some of which are international in nature (Draper Richards Foundation, Skoll Foundation, Echoing Green, Ashoka, Schwab Foundation).

Largely backed by foundations are so-called social enterprise accelerators. One of the most well-known is the Pittsburgh Social Enterprise Accelerator in Pennsylvania. It was started and initially funded by two large foundations to support the development of emerging nonprofit ventures in the Pittsburgh area at no cost to the nonprofit. For a small portfolio of nonprofits, it provides one-on-one consulting, seed funding, business tools, and connections with key stakeholders in the community such as service providers, funding sources, corporations, public agencies, and university programs. The diverse backgrounds of staff and advisory board members help facilitate connections in the community (Pittsburgh Social Enterprise Accelerator, 2006). For those nonprofits and businesses willing to pay, a number of consulting firms have sprung up that assist social enterprises on the operational and business side.<sup>10</sup>

Some limited, mostly indirect, government support for social enterprise is found on local, state, and federal levels in the United States. For example, while community development programs sponsored by different levels of government are not directly aimed at the development of social enterprise per se, they can provide substantial support.<sup>11</sup> One of the few examples of direct support on the local level was the Social Enterprise Initiative 1998-2001 undertaken by the City of Seattle, Washington. It sponsored, often jointly with various foundations, such events as entrepreneurial training for nonprofits and the Seattle Social Enterprise Expo, one of the first social venture fairs in the United States. The Expo led to the

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<sup>10</sup> See footnotes 1 and 2.

<sup>11</sup> Dennis Young, personal communication.

development of the Seattle Social Investor's Forum, which the city subsidized for its first two years. Funding of the annual forum was then taken over by the Gates Foundation (Pomerantz, 2003).

There are also state and federal set-aside programs for social enterprise community rehabilitation programs that employ primarily people with disabilities. Twenty-seven states set aside funds to buy state supplies and services from such rehabilitation programs. For example, Washington's rehabilitation programs sell about \$3 million in goods and services to the state. A similar program exists on the federal level established by the Javits-Wagner-O'Day Act (JWOD). The mandatory federal purchasing program "provides employment opportunities for over 36,000 Americans who are blind or have other severe disabilities by orchestrating government purchases of products and services provided by nonprofit agencies employing such individuals throughout the country" (Pomerantz, 2003).

### *Social Enterprise Research*

In terms of institutions supporting social enterprise research in the United States, business schools conduct at least as much research on social enterprise as social science departments. Business school research focuses on the practical knowledge needed by business and nonprofit managers to develop social enterprise activities in their organizations (Paton, 2003; Boschee, 1998, 2001; Dees et al, 2001; Brinckerhoff, 2000; Emerson and Twersky, 1996 among others). Social science researchers, on the other hand, have published path-breaking books and articles with a more theoretical approach to the topic (Hansmann, 1980; Weisbrod, 1988; Young, 1983; Rose-Ackerman, 1986; Ben-Ner and Gui, 1993 and more recently Weisbrod, 1998).

### *Membership Associations*

Recently, membership organizations have formed in the United States around the idea of social enterprise and social entrepreneurship. One of the fastest growing organizations is the Social Enterprise Alliance which defines itself as "the membership organization leading the creation of a social enterprise movement" with a purpose to "mobilize communities of nonprofit organizations and funders to advance earned income strategies" (Social Enterprise Alliance, 2004). It is run by and for social enterprise practitioners. The Alliance is the result of a 2002 merger of two groups: The National Gathering for Social Entrepreneurs (founded in 1998) and SeaChange (founded in 2000). At the root of these groups are initiatives funded by foundations including, among others, the Kellogg, Kauffman, and Echoing Green foundations and the Northland Institute (Ford Foundation) (Social Enterprise Alliance, 2004).

### *Western Europe*

#### *Strategic Development of Social Enterprise*

In Western Europe, the institutional environment for strategic support of social enterprise is much more tied to government and European Union support. Though the first wave of European social enterprises emerged without any specific public support, the 1990's saw the

development of specific public schemes in many countries.<sup>12</sup> Government support includes new legislation as discussed above and the coordination and policy work of specific public units and programs.

An example of the latter in the United Kingdom is the Department of Trade and Industry (DTI) in the central government that has a Social Enterprise Unit responsible for implementing a three-year program, *Social Enterprise: A Strategy for Success*. Its objective is to create a supportive environment for social enterprise through a coordinated effort by DTI, Regional Development Agencies, government offices and local government. The unit also makes tax and administrative regulatory recommendations for social enterprises and supports public and private training and research in the area (DTI, 2004).

In Ireland, the government began supporting social enterprise in the 1980s as a way to combat unemployment. The national Community Enterprise Programme, established in 1983, “provided funded training programs, development grants and commercial aids to community-based groups” (O’Hara, 2001:155). In Finland, the Ministry of Labour has worked with the Institute for Cooperative Studies at Helsinki University to develop materials and presentations on how to establish cooperatives. Also in Finland, an association for political lobbying was created by a group of labor cooperatives (Pattiniemi, 2001).

Much of this government support, in terms of public policy and financing (except *social cooperative of type a* in Italy), is however narrowly focused on work integration social enterprises (WISE) mentioned earlier. This legal recognition by public authorities of social enterprise integration through work does allow, in most cases, a more stable access to public subsidies, but in a very targeted and limited way. Most often only temporary subsidies are granted to start the initiative and to make up for the 'temporary unemployability' of the workers (e.i. the difficulty in obtaining employment due to the deterioration of a person's skills following their extended absence from the labour market) (Nyssens and Kerlin, 2005).

The European Union has also been a strong actor in promoting research and program support for social enterprise. It views social enterprise as a business model that can simultaneously address issues of economic growth, employment, and quality of life (Thomas, 2004). From 1996-1999 the Research Directorate-General of the European Commission funded the EMES (The Emergence of Social Enterprise in Europe) Project that examined social enterprise in all 15 European Union countries. The Commission also financed the follow-up PERSE (The Socio-Economic Performance of Social Enterprises in the Field of Integration by Work) Project conducted in 11 European Union countries from 2001-2004. The Enterprise Directorate General of the European Commission has supported social economy enterprises such as cooperatives and mutuels since 1989 and is currently focusing on their “enterprise aspects.” It supports research, helps draft European Union statutes, consults with organizations, and links with public officials in member countries who are working on regulation in this area (European Union, 2004).

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<sup>12</sup> See EMES WP for details : [www.emes.net](http://www.emes.net)

The European Union has also provided financial support for social enterprise in individual member countries. Ireland is an example of a country where the EU has been especially active in this area. Beginning in 1992, Ireland received a Global Grant from EU Structural Funds “to support local development and enterprise initiatives and to promote integrated economic, social, and community development of local areas” (O’Hara, 2001:156). The EU LEADER program for rural development also provided similar support. Other EU initiatives in Ireland provide direct and indirect support for local social enterprise including INTEREG, NOW, INTEGRA, and URBAN. As O’Hara summarizes, “This support for local development has either helped to create the conditions for the emergence of new social enterprises or has afforded existing enterprises the opportunity to broaden or consolidate their activities through participation in such programmes” (2001:156).

### *Social Enterprise Research*

In Western Europe, research on social enterprise is conducted almost exclusively in social science departments, though some business schools have begun to explore the subject. Research and teaching focuses on cooperatives, mutual help societies, and associations operating in the social economy as separate from the for-profit sector. Much attention is placed on the contribution of these organizations to the work integration of the unskilled and care services. There is also evidence of a more concerted effort in Europe to unify definitions and research on social enterprise in the work of the EMES Research Network in European Union countries described above (Defourny, 2001). Current research includes the development of theoretical approaches to the study of social enterprise - work that often draws on economic theory (Bacchiega and Borzaga, 2001; Laville and Nyssens, 2001; Sacconi and Grimalda, 2001; Badelt, 1997) and sometimes social theory (Evers, 2001).

### *Membership Associations*

Membership organizations for social enterprise are also a new phenomenon in Europe. Created in 1998, the Community Action Network in the United Kingdom is a membership association for social entrepreneurs roughly equivalent to the United States-based Social Enterprise Alliance. It is oriented broadly on the promotion of social entrepreneurship, especially the exchange of ideas between nonprofit, public, and private sectors. The Network states, “We focus on the practical delivery of the social entrepreneurial approach, whilst continuing to stimulate government, public and private sector thinking, both on the method and the importance of this approach for social regeneration” (Community Action Network, 2004).

## **PROBLEMS AND CHALLENGES**

### *United States*

In the United States, though social enterprise is experiencing a healthy growth, several problems and challenges of the movement have been identified: exclusion of specific groups, weakening of civil society, and lack of government involvement. In relation to the first problem, in the United States specific types of social enterprise may have the unintended side effect of leading to the further exclusion of already marginalized groups. For example, revenue generated through a fee-for-service strategy is a popular type of social enterprise activity. However, when this strategy is applied in social service nonprofits many of the poorer potential beneficiaries of these services are automatically excluded from receiving

services because they are unable to pay for them (Salamon, 1993). Another way vulnerable groups may become excluded are when profit-making activities encroach on service delivery that is the focus of a nonprofit's mission or, worse, some revenue generating activities are preferred over mission-related programs because they are more profitable (Eikenberry and Kluver, 2003; Weisbrod, 1998, 2004; Dees, 1998). Moreover, there is evidence that nonprofits engaged in market activities grow increasingly focused on meeting the needs of individual clients rather than those of the neighborhood or community through provision of public goods (Alexander et al, 1999). Exacerbating the situation is the new competition nonprofits are feeling from for-profits that offer similar services (Young and Salamon, 2002).

Social enterprise also has some observers in the United States worried that the growing market orientation of nonprofits will put civil society at risk (Eikenberry and Kluver, 2003; Alexander et al, 1999). One of the contributions of nonprofits to civil society is their ability to strengthen social capital.<sup>13</sup> As with service delivery, a growing focus on the bottom line may lead organizations to abandon less efficient practices that strengthen social capital such as running a volunteer program. Nonprofits engaged in social enterprise may also find they have less need to rely on traditional stakeholders and networks such as private donors, members, community volunteers and other community organizations with the result that opportunities to promote social capital are lost (Eikenberry and Kluver, 2003; Aspen Institute, 2001). Finally, nonprofit interest in market strategies may be leading to a shift in board members from those connected to the community to those connected to business (Backman and Smith, 2000).

As addressed above, other challenges in the United States include the need for clearer legal definitions for nonprofits engaged in revenue generating activities. Indeed, the present comparison with Europe highlights the comparative lack of U.S. government involvement with social enterprise revealing it as an area for possible improvement as well.

### *Western Europe*

Social enterprise in Western Europe faces a different set of problems and challenges largely stemming from its different approach to social enterprise. One of the largest concerns of observers is the narrow range of services supported by social enterprises. Having become associated with work integration and personal social service provision (and generally as a substitute for government policy failure in particular areas), social enterprise is being underutilized as a viable strategy for supporting other nonprofit activities (Borzaga and Defourny, 2001). A contributing factor and problem in itself, is the limited types of social enterprise actually engaged in as compared to the United States (where social enterprise includes such activities as nonprofit partnerships with for-profits, cause-related marketing, sales of mission-related products, etc.)

As in the United States, many West European countries are also dealing with the lack of clearly defined legal frameworks for social enterprise. Borzaga and Defourny call for policy

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<sup>13</sup> Social capital includes the social norms of trust, cooperation and reciprocity that develop through positive citizen interaction and which undergirds the effective functioning of democracy and a market economy (see Salamon, 1997; Backman and Smith, 2000).

that would provide for their full legal recognition and regulation as well as social policies that would take into account their potential to address unemployment and social exclusion and a broader range of services (2001). As discussed above, some European countries are already beginning to change legislation to reflect this need. Borzaga and Defourny also call for local governments to provide demand for the goods and services of social enterprises by limiting government contracts in certain areas to social enterprises.

## **CONCLUSION: LEARNING FROM EACH OTHER**

This comparison of social enterprise has found that many of the areas where the United States has difficulty with social enterprise, Europe shows strengths, and vice versa, making it possible for the two to learn a number of valuable lessons from one another. The United States can learn from Western Europe about recipient involvement in social enterprise, organizational governance, and government involvement. On the other hand, the United States offers important examples for Europe on how to use social enterprise across a range of services, on how to expand the types of social enterprise, and the targeted use of government contracts for products of social enterprise.

Specifically, the United States can learn from Western Europe by following, to the extent possible, its practice of involving the program recipient or beneficiary in the social enterprise activity. Inclusion of the recipient can occur through cooperative type arrangements or simple involvement in the revenue producing activity itself. While some forms of social enterprise are not amenable to recipient involvement, such as fee-for-service, a switch to more integrated social enterprise activities is possible especially where an organization is already involved in sales of products for revenue generation. Such a transition would provide valuable work experience and training for program recipients. Most importantly, it would work towards the inclusion of the poorest groups, thus addressing the exclusion problem found with some forms of social enterprise in the United States.

Governance in social enterprise is another area the United States can learn from Western Europe, specifically in its multi-stakeholder approach and democratic management style. Governing boards in Europe that are made up of multi-stakeholders and operate according to a democratic management style, build civil society and strengthen democracy. With the spread of social enterprise in the United States and its contribution to the marketization and weakening of civil society, a multi-stakeholder approach to governance builds social capital by bringing together individuals who are oriented to the community. A democratic management style reinforces democratic practices on all levels.

Western Europe can also provide examples of how federal and state governments in the United States can establish an environment that fosters the creation and development of social enterprise. This comparison revealed that while foundations are significant actors in supporting social enterprise in the United States, there are certain economic, legal, and administrative boundaries that limit the extent to which they can build favorable and sustainable environments for social enterprise.

Western Europe, on the other hand, can learn a number of valuable lessons from the United States. Historical factors shaping the emergence of social enterprise in Europe resulted in its narrow focus on work integration and personal social services. In the United States, social enterprise activities support a broad range of services including many nonprofit activities outside of social services (i.e. environmental protection). Europeans interested in expanding

the range of services supported by social enterprise can learn from these working models in the United States.

In a similar vein, Europeans can learn from Americans about different forms of social enterprise to broaden their list of income generating activities. Depending on how far Europeans are willing to stretch their definition of social enterprise, Americans can offer examples of nonprofit strategies such as sales of mission-related products, cause-related marketing (co-branding of for-profit products), partnerships with for-profit companies, and the formation of for-profit subsidiaries by nonprofits among others (Sealey et al, 2000).

Finally, though government in the United States is relatively uninvolved with social enterprise, it does participate in the one area European governments (with the exception of a few) tend not to: government contracts for social enterprise products (Borzaga and Defourny, 2001). The U.S. federal government provides an example with legislation that creates demand for social enterprise products through set-aside funds that purchase goods produced by 36,000 employees in sheltered workshops. Over half of all U.S. state governments operate comparable set-aside programs. Europeans can strengthen existing social enterprise operations by encouraging central and local governments to enter into similar supportive arrangements.

#### *Future Research*

This chapter has provided a broad comparison of social enterprise in the United States and Western Europe (see Table 2 for an overview). Given the rich diversity of social enterprise in each of the regions, future research should focus on a more in-depth contrast of specific models of social enterprise, including the effectiveness of various governance structures and the utility of different types of legislation in supporting social enterprise. Other needed research is the comparison of social enterprise across multiple world regions. Differences in social enterprise have been identified across Latin America, Southeast Asia, East-Central Europe, and Africa in addition to the United States and Europe. Further expansion of comparative social enterprise research will not only increase mutual understanding and dialogue across world regions but also provide a cross-fertilization of ideas that can work to improve social enterprise everywhere.

**Table 1. “Nonprofit” Legal Forms\* for Social Enterprise in the United States and Selected West European Countries**

\*There are of course many other legal frameworks in which social enterprise operates in both regions. The nonprofit form is examined here because it is one of the more commonly used yet most restrictive forms in terms of commercial activity. Newly legislated social enterprise entities are included in the last column because in some cases they were created to compensate for strict commercial restrictions in the nonprofit sphere.

	<b>Common Nonprofit Organizational Form</b>	<b>Commercial Activity</b>	<b>Legislated Social Enterprise Entity</b>
<b>United States</b>	Charitable Nonprofit	Allowed. Business income unrelated to the nonprofit’s exempt mission is taxed. Substantial unrelated business activity (generally over 15% of the nonprofit’s time or gross revenues) is not allowed except under the auspices of a for-profit subsidiary.	
<b>Belgium</b>	Associations Sans But Lucratif	Unclear. In theory not allowed but in practice acceptable so long as it is ancillary to the association’s main object and not it’s principal activity.	Company with a Social Purpose (1995)
<b>Denmark</b>	NB Associations	Can engage in economic activity, but receipts from such activity are subject to the same taxes as those imposed on commercial companies.	
<b>Finland</b>	Nonprofit Associations	Nonprofit associations may only practice a trade or other economic activity that has been provided in the association’s rules or that otherwise relates to the realization of its purpose or to be deemed economically insignificant.	
<b>France</b>	Non-recognized or <i>de facto</i> Associations/ Recognized	Not prohibited. Profits can be made but nonprofit	Cooperative Society of

	Associations/ Associations recognized as a public utility	status prohibits the accumulation of surpluses beyond those needed for day-to-day use.	Collective Interest (2001)
<b>Germany</b>	Nonprofit Associations	May engage in commercial activities if they are purely ancillary, do not constitute the main object of the association and play a very secondary role in relation to its main nonprofit activity.	
<b>Greece</b>	Common Law Associations/ Special Associations/ Unions of Persons	Making a profit occasionally in order to obtain resources for the association is authorized.	Social Cooperative with Limited Liability (1999)
<b>Ireland</b>	Non-Governmental Associations: Unincorporated Body, Company limited by guarantee, Industrial and provident society	No limitation except where tax exemption for charitable activities is sought. In this case, the rules of the group must contain a binding clause which guarantees that any money received will only be used for charitable purposes.	
<b>Italy</b>	Non-recognized Associations/ Recognized Associations/ Committees	Allowed but such activity should not be aimed at making a monetary profit, but exclusively at obtaining the association's purpose. If the commercial activities are autonomous in relation to the purpose of the association, it may be considered a <i>de facto</i> company with taxation and social obligations. Members have no right to profit sharing.	Social Cooperative A-Type and B-Type (1991)
<b>Luxembourg</b>	<i>De facto</i> Associations/ Nonprofit Associations	Profit-making activities are not prohibited but they must be occasional and ancillary to the main activity.	
<b>Netherlands</b>	Association under Private Seal/ Associations by Notarized Act	Allowed but the purpose of an association cannot be to make profits and profits cannot be distributed to	

		members.	
<b>Portugal</b>	Non-recognized Associations/ Private associations under the general scheme/ Private associations under a special scheme	Associations may have a financial object, not excluding financial advantages for the associates, provided that these are not in the form of a profit as such.	Social Solidarity Cooperative (1998)
<b>Spain</b>	Associations governed by the Law of 24 Dec 1964/ Associations governed by special statutes/ “Public Utility” Associations	Allowed. “Public Utility” Associations are exempt from corporation tax with respect to profit from commercial activity, provided it corresponds to the entity’s object or specific purpose.	Social Initiative Cooperative (1999)
<b>Sweden</b>	Association	In principle not allowed. The association may, however, carry on some business activity as long as it is not commercially organized. Tax is paid on business that has no connection to the nonprofit activity.	
<b>United Kingdom</b>	Unincorporated Associations/ Trust/ Company Limited by Guarantee/ Industrial and Provident Society/ Incorporated by Royal Charter/ Incorporated by Act of Parliament	Restricted. Charities can engage in primary-purpose trading but not in permanent trading as means to fundraising. Charities that wish to trade to any substantial degree must set up a separate trading subsidiary which can then covenant its profits back to the parent charity and the tax can be recovered.	Community Interest Company (2005)

Information on European countries from: European Commission (1997) “Communication from the Commission on Promoting the Role of Voluntary Organisations and Foundations in Europe.” See Annex III: The Legal and Fiscal Framework for Voluntary Organisations (Associations) and Foundations.

**Table 2. Comparative Overview of Social Enterprise in the United States and Europe**

	<b>United States</b>	<b>Europe</b>
<b>Emphasis</b>	Revenue Generation	Social Benefit
<b>Common Organizational Type</b>	Nonprofit (501(c)(3))	Association/Cooperative
<b>Focus</b>	All Nonprofit Activities	Human Services
<b>Types of Social Enterprise</b>	Many	Few
<b>Recipient Involvement</b>	Limited	Common
<b>Strategic Development</b>	Foundations	Government/EU
<b>University Research</b>	Business and Social Science	Social Science
<b>Context</b>	Market Economy	Social Economy
<b>Legal Framework</b>	Lacking	Underdeveloped but Improving

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