

SEDETT

Social Enterprise Development, Education and Training Tools 2016-2018

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Module 1 Social Enterprise Concepts, Forms and Governance

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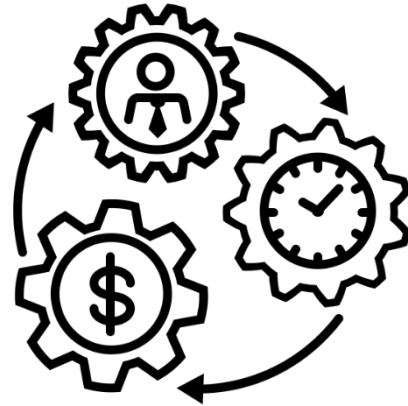
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Generally

The term 'social enterprise' came about from the widespread recognition that there were organisations using the power of business to bring about social and environmental change without a single term that could be used to describe them. The term started being more widely used in the 1990s and since then there has been debate about what a social enterprise and social entrepreneurship are, and whether the social enterprise label itself could be 'hijacked' by businesses that aren't really, but are keen to pretend they are.



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Social enterprise and social entrepreneurship are terms that tend to be used interchangeably. O'Broin (2012) indicates that social enterprise can be considered as a broad approach to economic development based on economic and social solidarity and a more democratised society, whereas social entrepreneurship is a term more recently used in relation to the marketization of the management and delivery of what were previously considered to be public services funded and delivered by national, regional or local governments.

This module is concerned with social enterprise in its widest sense and reflects in particular the findings gained from case study organisations explored in connection with a project entitled - 'Social Enterprise Development, Education and Training Tools (SEDETT)' that was funded through the ERASMUS+ programme and was conducted from October 2016 to October 2018. This project brought together a partnership of Higher Education Institutions (HEIs) and other types of training organisations (see www.sedett.eu/ for description of partners). The project involved exploring the factors that were found to be significant in sustaining successful social enterprises as businesses across the project partners' home locations in Europe. The partner organisations in the project were drawn from the following countries namely,

United Kingdom, Poland, Romania, Ireland, Italy, Lithuania, and Spain.

Module Aims

This module establishes

- the broad concept and mission of social rather than commercial for-profit enterprise before it considers
- the definitions of social enterprise and that have been adopted in countries across the European Union (EU)

A lack of agreement on the nature and purpose of social enterprise was revealed and as a result the SEDETT partners determined a definition of social enterprise that was used on the project itself.

In addition the module identifies

- the legal forms and classifications of social enterprise in terms of its general operational features and by business models in use and target audiences;
- and
- the need for governance in social enterprises and explores the components and features of the governance element of the social enterprise capacity assessment tool

Each of the above aims are addressed in the following sub-units namely,

1. The Concept and Mission of Social Enterprise
2. Definitions and Legal Forms of Social Enterprise
3. Legal Forms, Classifications and Business Models in-use for Social Enterprise
4. Forms of Governance for Social Enterprise Sustainability.

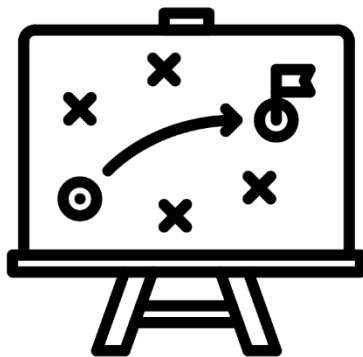
Approach

The learning materials in this module consider general key concepts related to social enterprise, its concept and mission, its legal forms, classifications business models in-use and governance features. These are issues that need to be addressed before exploring the evidence gathered from the analysis of the practitioner interviews from the SEDETT project case study organisations. This material is considered in detail in the learning materials developed in modules 2 and 3 of this intellectual output. As a result the initial material in this module is general and academic in its nature. Specific contextual material related to each of the SEDETT project partners home country locations as well as descriptions of the in-depth case studies based on social enterprise organisations that are located in each of the SEDETT project partner's home locations have been set out separately at www.sedett.eu. Such materials are used as examples to illustrate material in module 1, 2 and 3 in order to facilitate professional development.



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A social enterprise is an organization that applies commercial strategies to maximize improvements in human and environmental well-being—this may include maximizing social impact alongside profits for external shareholders. Social enterprises can be structured as a for-profit or non-profit, and may take the form (depending in which country the entity exists and the legal forms available) of a co-operative, mutual organization, a disregarded entity, a social business, a benefit corporation, a community interest company or a charity organization. They can also take more conventional business structures. What differentiates social enterprises is that their social mission is as key to their success as any potential profit.



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Many commercial enterprises would consider themselves to have social objectives, but commitment to these objectives is motivated by the perception that such commitment will ultimately make the enterprise more financially valuable. These are organisations that might be more properly said to be operating corporate responsibility programs. Social enterprises differ in that their commitment to impact is central to the mission of the business. Some may not aim to offer any benefit to their investors, except where they believe that doing so will ultimately further their capacity to realize their social and environmental goals, although there is a huge amount of variation in forms and activities.

The term has a mixed and contested heritage due to its philanthropic roots in the United States, and cooperative roots in the United Kingdom, European Union and Asia. In the US, the term is associated with 'doing charity by doing trade', rather than 'doing charity while doing trade'. In other countries, there is a much stronger emphasis on community organising and democratic control of capital and mutual principles, rather than philanthropy. In recent years, there has been a rise in the concept of social purpose businesses which pursue social responsibility directly, or raise funds for charitable purposes.

Alter (2007) proposes that social enterprises differ in type, purpose and nature from commercial for profit enterprises and operate across a spectrum that stretches from 'traditional non-profit' to 'traditional for profit' enterprises – see Fig. 1.1. Within the spectrum there are differing ways in which a social enterprise can be legally structured, such as a company limited by shares, a partnership, a cooperative, community interest companies, cooperative and mutual enterprises, socially responsible business, charitable trading activities and others. Fig. 1.1 indicates that in terms of sustainability of the social enterprise then the emphasis between economic and social wellbeing needs to be addressed within the mission statements of the individual social enterprise.

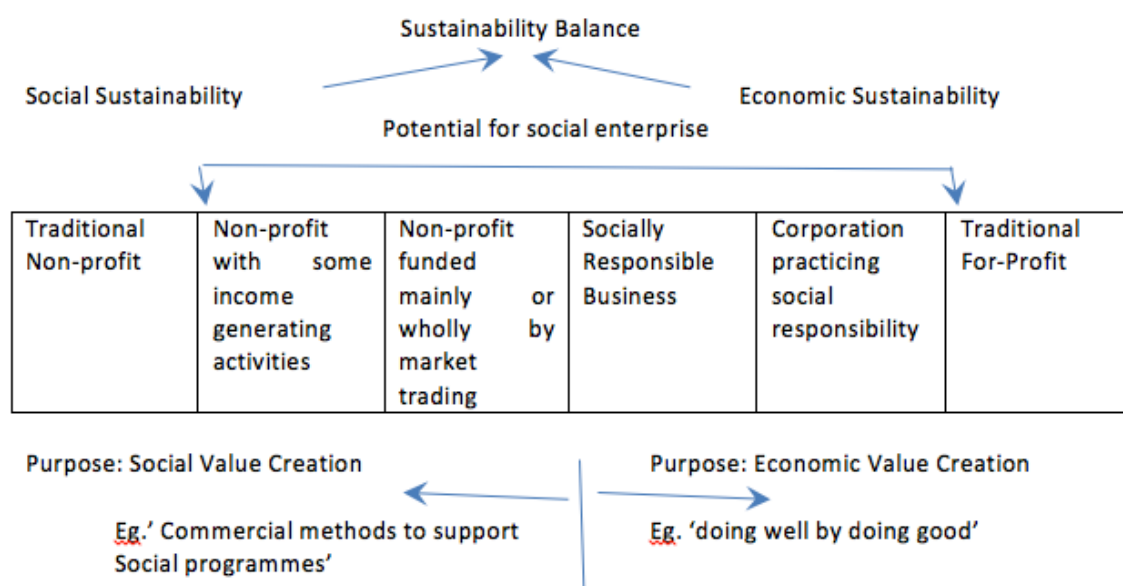
What are mission and vision statements?

a mission statement is a practical written statement that sets out what a social enterprise must do to deliver its aims and objectives. This written statement needs to be reviewed and if necessary updated to reflect changing circumstances.

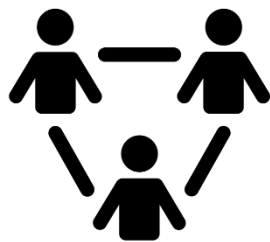
A vision statement identifies the long term guiding principles for a social enterprise, it sets out the core purpose and the values of the organisation. A vision statement needs to be more aspirational and inspirational than the future plans of an organisation that would be set out in a mission statement. A vision statement needs to be clear and set out from the inception of the enterprise and it can be used as a framework to evaluate organisational performance against targets

Fig. 1.1 indicates that social enterprises can have differing purposes and hence view sustainability in terms of social and / or economic value creation through differing lenses. The illustration of this broad spectrum of potential types of social enterprise is further explored in the module via the SEDETT case study organisations that have been drawn from across a number of European countries see www.sedett.eu. The differing types, forms and legal structure of social enterprises are further explored in a later sub-section of this module.

Fig 1.1 The Social Enterprise Sustainability Spectrum (as Ridley-Duff and Bull, 2016 p.70)



Teasdale (2012) tracks the change in the concepts associated with social enterprise across the early 2000's and records that there was a movement in the way it was conceived that reflected a more American approach. This movement saw social enterprise moving away from being related to co-operative, community and collective endeavours towards an approach that was focused on the centre of Fig. 1.1 i.e one that was based on organisations doing social business and generating surpluses through income earned from selling goods and / or services.



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Ridley-Duff and Bull (2016, p.75) further sub-divide the above spectrum by suggesting that social enterprise can be framed, in theoretical terms, as being a cross- sector phenomenon in which 'systems of economic exchange' are combined to increase opportunities for social value creation'. This combination of and blurring of boundaries between the public sector, the private sector and the voluntary or third sector to deliver needed social services, health care and other formerly publicly funded services is an emergent issue across the landscape of Europe especially since the financial crisis of 2007/8 led to many individual European states adopting government policies of restraint and austerity.

Ridley-Duff and Bull (2016) assert that the sustainability spectrum advanced above can be further refined in terms of thinking of social enterprises as having one of the following four profiles namely,

- a non- profit model that is characterised by enterprises that operate for the purposes of philanthropy only,
- (a corporate social responsibility model that is characterised by for profit enterprises that have and enact specific policies for community benefits,
- a more than profit model that is characterised by enterprises looking to generate revenues through commercial trading activities, and
- a social and solidarity mode that is characterised by non-profits and charities that are dependent on grants and fundraising activities for their revenues.

It is evident that social enterprise has become increasingly more important internationally. They are seen as having a significant role in the re-structuring of public services. They are seen as being an important vehicle for social innovation to address social problems related to community development, urban regeneration, rural deprivation, cultural services and environmental re-cycling.

Social enterprises as well as commercial enterprises must both seek to be efficient and effective from a financial point of view, comply with the legal requirements which apply to companies and consider strategic and operational planning, risk management and marketing.

In general social enterprises differ from standard commercial enterprises in terms of

- Having a clearly defined mission that addresses a social, economic or environmental issue that has been identified as a community issue and not just a financial purpose

For more on this see: www.youtube.com

- Having a more co-operative/collaborative culture that is concerned with ethics and not just profit
- Using a broader based accountancy approach to measure social impact as well as surpluses

For more on this topic see:

www.forbes.com

www.socialimpactassessment.com

- Using voluntary contributions as well as paid staff as part of their human resource models
- Using a different approach to business planning that includes the potential of funding from a public sources as well as income for marketing their goods and / or services

For more on this see

www.youtube.com

Many of challenges faced by social enterprises are similar to those faced by commercial enterprises to remain sustainable and in business over a period. However, there are some challenges that are more specific to social enterprises.

Some of the challenges faced by social enterprises to remain sustainable include :-

- the mission-driven nature of the social enterprise which can impact on its focus on effective organisational and financial management.
- the culture of the social enterprise can demand collaborative decision-making which makes it difficult to make decisions and can become problematic if taken to an extreme.
- the commitment-driven values of staff and volunteers which can conflict with the need to optimise business performance and
- the difficulties faced by social enterprises to access finance on a stable, on-going basis.

Having set out the concept and general missions appropriate for social enterprise the module now considers how social enterprise may be defined and its potential legal structures initially from a general U.K. perspective and then from a wider European viewpoint before finally considering a definition that was appropriate for operationalising in the context of the SEDETT project.

Generally

Ridley-Duff and Bull (2016) provide a detailed account of the development and context of differing UK, European and American definitions of social enterprise that been advanced since the 1980s.

For more information and a summary of the development of social enterprise definitions see www.sedett.eu.

Social Enterprise U.K., the main umbrella body for social enterprises in the UK, elaborates further and identifies three key criteria by which organisations can be recognised as being social enterprises. For instance it indicates that an organisation needs an enterprise orientation and social aims, it highlights a third criterion of social ownership, which is defined as follows:

“They are autonomous organisations whose governance and ownership structures are normally based on participation by stakeholder groups (e.g. employees, users, clients, local community groups and social investors) or by trustees or directors who control the enterprise on behalf of a wider group of stakeholders. They are accountable to their stakeholders and the wider community for their social, environmental and economic impact. Profits can be distributed as profit sharing to stakeholders or used for the benefit of the community.” (www.socialenterprise.org.uk)

The linking of social enterprise with the potential to improve societal well-being was also central to the definition of social enterprise advanced by Yunus (2007). This perspective addressed the elimination of poverty as being of primary importance to emergent social enterprises seeking to innovate to generate social value. The definition offered by Yunus (2007) identified two distinct types of social business that operated for societal well-being namely, (i) the non-loss or non-dividend business that seeks to reinvest its surplus within the organisation and its members and (ii) the profit maximising business that seeks to ensure returns are established for the impoverished community within which the social enterprise operates.



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In 2010 the Social Enterprise Network Scotland (SENSCOT) published a definition of a social enterprise which made clear that to be considered as a social enterprise the organisation must

'not be a subsidiary of a public sector body, be driven by values both in terms of its mission and in its business practices, have social and / or environmental objectives, be trading as a business aspiring to financial independence (50% or more of its income must be from trading) and have an asset lock on both its trading surplus and its residual assets'

This definition introduced, for the first time, the idea that to be considered as a social enterprise then an organization needed to aspire to generate the majority of its revenues by trading its goods or selling its services in the market place. This criteria was not picked up in a definition offered by the British Government at that time which made clear that the term social enterprise was a term that was to be used to describe the purpose of the business rather than its legal form and that it should be considered as

a business with primarily social objectives whose surpluses are principally invested for that purpose in the business or in the community rather than being driven by the need to maximize profits for shareholders and owners" (BIS, 2011)

The BIS (2011) general definition does not make clear just what was expected to be the nature and characteristics of a social enterprise. Such matters were addressed in the work of Social Enterprise U.K (2017). This umbrella organization for the social enterprise community in the U.K did not provide a narrow definition of social enterprise but instead set out what it believes were the critical factors that make an organization a social enterprise namely,

- Have a clear social and/or environmental mission set out in their governing documents
- Generate the majority (50% plus) of their income through trade within two years of operation
- Reinvest the majority of their profits to promote its social or environmental mission
- Be autonomous of state or be transiting from state control over a period
- Be majority controlled in the interests of the social mission
- Assets to be retained and locked-in for social or environmental benefit
- Have accountable and transparent governance processes that involve to members and other stakeholders

www.socialenterprise.org.uk

The differing characteristics of social enterprise indicated by the above definitions show that generalisations about social enterprise are difficult as there has been a lack of complete consensus. This lack of agreement was highlighted in work done by Ridley-Duff and Southcome (2012) that asked respondents in a survey to rank characteristics of social enterprises for their significance. It resulted in a marked lack of agreement and noticeable differences from respondents from UK, European and other global locations. Such results can be expected when seeking to bring together diverse social enterprise organisations under a single definition. Such differences stem from

- *the social enterprise sector being relatively youthful in its nature;*
- *the absence of a single regulatory body such as the Charity Commission in the UK;*
- *the absence of just one legal form; and*
- *organisations arriving at social enterprise from a number of different origins such as a charity, or an entrepreneur-led business, or a public sector spin out.*

As this module is setting out a European viewpoint it is now appropriate to broaden the above UK centric consideration of operational definitions of social enterprise in–use to also consider social enterprise and its operational definitions within the European Union in general and across the European countries involved in the SEDETT project in particular.

The European Perspective

The E.U. Social Business Initiative of (2011) defines a social enterprise as

an undertaking whose primary objective is to achieve social impact rather than generating profit for owners and shareholders; and which uses its surpluses mainly to achieve these social goals; and which is managed by social entrepreneurs in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders of its business activity’.

This definition arranges social enterprise key features along three dimensions, namely:

- the entrepreneurial dimension
- the social dimension
- the dimension relative to governance structure.

Provided that the pursuit of explicit social aims is prioritised through economic activities, these three dimensions can be combined in different ways and it is asserted that it is their balanced combination that matters when identifying the boundaries of the social enterprise.

The European Social Fund (2012) defines social enterprise as

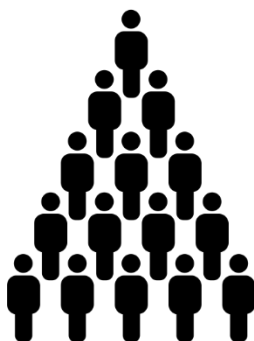
“an organisation with an explicit aim to ensure /provide the welfare of the community, initiated by a group of citizens in which the material interest of capital investors are subject to limits. It is an independent organisation which undertakes the economic risks generated by the economic activity performed and involves different interested parties within the community in its management “

This definition indicates that a social enterprise has the following principal characteristics, namely

- The primary mission is promote the welfare of the community
- The financial interests of its investors are sub-ordinate to its social mission
- The organisation engages in economic activity
- The management of the organisation involves its key stakeholders in a participatory manner in its decision making processes

Both of the above definitions have been reflected in the work of the Social Enterprise U.K (2017) but noticeably they do not address the question of balance in terms of (i) the majority of their revenue generation activities coming from trade and (ii) the majority of their organisational surpluses being distributed to achieve their social or environmental mission. However, the Social Enterprise Synthesis Report (EU, 2015) takes the above E.U. definitions and further asserts what it considers to be the key dimensions of a definition of social enterprise, namely,

- entrepreneurial dimension (continuous economic activity - as mainstream enterprises)
- social dimension (explicit and primary social aim - as non-profit organizations)
- governance dimension (limits to distribution of profits and/or assets – has organisational autonomy and inclusive governance)



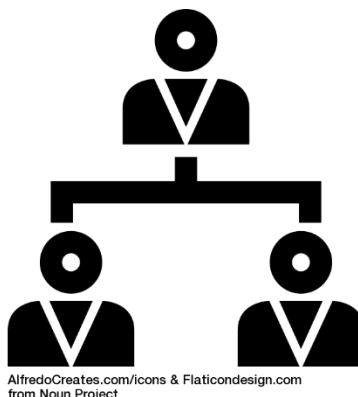
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The Report acknowledges that the above features of the operational definition represents the ‘ideal type’ of social enterprise and that most but not all organisations claiming to be social enterprises share all of the features of each dimension. This acknowledgement of some flexibility and diffusion at the organisational boundaries of businesses that are normal commercial enterprises and organisations that can be recognised as social enterprises is reflected in the Social Enterprise U.K. (2017) work and provides potential for social enterprise to be recognised slightly differently in the differing independent nations that make up the European Union.

It was resolved to explore the features and dimensions of social enterprise across different E.U. independent states by considering how social enterprise is recognised in each of the SEDETT project partners' home countries (i.e. Poland, Romania, Ireland, Italy, Lithuania and Spain).

Information on the recognition of social enterprises across the SEDETT partner countries can be found at www.sedett.eu.

However, as Spear et. al., (2009) indicated the operationalisation of any definition of social enterprise is not straightforward. This is especially the case when seeking to identify social enterprises that are operating in more than one European location. This was the challenge that was faced by the partner organisations developing the SEDETT project and is now considered below.



The SEDETT Project and its Operational Definition of Social Enterprise

This issue was addressed by the project partners at the initial management meeting and following a wide ranging discussion about the implications of the differing definitions of social enterprise in the context of each partners' home location it was agreed to accept the broad definition set out by the Social Business Initiative (2011) but alter 'engage in economic activity' to read as 'engage with enterprising activity', as a result the operational definition adopted for the project was:

'an undertaking whose primary objective is engage in enterprising activity to achieve social impact rather than generating profit for owners and shareholders; and which uses its surpluses mainly to achieve these social goals; and which is managed by social entrepreneurs in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity'.

In addition it was accepted that social enterprises should reflect the following key features in the way in which they operate, namely:

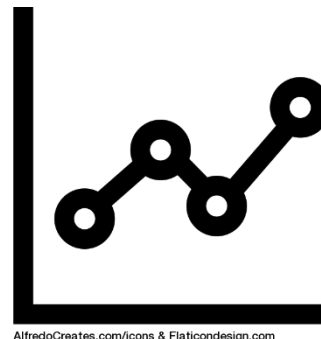
- an entrepreneurial dimension
- a social dimension
- a governance dimension.

However, the project partners accepted that to be workable as a definition across the project partners home locations then there would have to be a degree of flexibility in the interpretation of the above operational definition for the project especially with respect to

'limits on the distribution of profits / assets; and inclusive governance practice'



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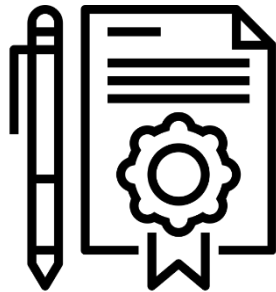
It was agreed that these issues would need to be taken into account when selecting the case study organisations for the project.

The selection processes used to select the case study organisations for the SEDETT project needed to consider the differing types of social enterprise that could potentially be included in the project. Therefore the project partner organisations needed to consider how social enterprises have been classified into differing types.

Legal Forms

Before trading to generate surpluses a social enterprise needs to investigate the range of possible legal structures that match what the organisation is trying to achieve as it has set out in its mission statement and in its governing documents which are termed as being its Rules or Articles of Association.

A legal structure is the framework that sets out the activities and decision making processes of a social enterprise and makes clear how it will operate within the relevant set of national and / or international laws. A legal structure will address issues such how members can vote, how a Board of Trustees will conduct meetings, or how its generated surplus can be invested.



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A legal structure is needed to protect people from personal liabilities if the organisation ceases to function, to facilitate the employment of others within the social enterprise, to enable the social enterprise to trade and to provide confidence to the commercial world that the enterprise is credible.

Initially a community enterprise may well have been operating either as an unincorporated association or a trust. This is an agreement between groups of people who have formed a committee to establish an enterprise in order to get an initiative started. However, an unincorporated association cannot be registered as a legal entity and it does not offer limited liability to its individual members who may be personally liable for any debts or contractual obligations. As a result a social enterprise seeking to trade its goods and / or services to generate surpluses and employ staff, manage volunteers and enter into legal contracts need to adopt a legal form that is, in the UK typically one of the following general types, namely

- A company limited by guarantee (CLG)
- A community interest company(CIC)
- A cooperative / community benefit society (co-op /CBS)
- A charitable trust / charitable incorporated organisation (CIO)

A company limited by guarantee (CLG) is A company limited by guarantee does not usually have a share capital or shareholders, but instead has members who **act** as guarantors. The guarantors give an undertaking to contribute a nominal amount (typically very small) in the event of the winding up of the company. A CLG is a company governed by its Articles of Association which are written to benefit the community rather than its shareholders. A CLG can generate surpluses by trading its goods and/or services and investing them back into the business or to make charitable donations. In a CLG there is no share capital and no shareholders. The members of the CLG benefit from limited liability and give only a nominal guarantee to cover any liabilities of the company in the event of it having to 'wind up. A CLG may qualify for government and charitable grants and it can take out loans but it cannot issue shares as a way of raising finance or offer interest or dividends.

Some examples of CLGs in the UK include the following,

[Bupa](#)

[Canal & River Trust](#)

[Welsh Water](#)



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A community interest company (CIC) is a trading enterprise set up to benefit the community. A CIC is subject to company law and it can be limited by guarantee or by shares. CICs were introduced as a legal form in the UK in 2005. A CIC may have a large membership or a small membership. A CIC with a small membership is where all members are directors. This would not be practical if the CIC had a large membership and in this situation the CIC's Articles of Association would set out the democratic processes necessary for its governance. A CIC with a large membership would qualify for government and quasi government grant funding. CICs are subject to financial regulations such as the limits placed on the distribution of its surpluses which allow it to distribute up to 35% of its surpluses to its shareholders with 65% being reinvested into the social enterprise or the community which it serves. Directors can be paid within the distribution cap and the amount needs to be agreed at a resolution of its members. An essential feature of all CICs is the statutory asset lock which makes sure that the assets of the CIC are used for the exclusive benefit of the community. The only organisations to which assets are allowed to be transferred in the event of the CIC being wound up are other asset-locked bodies.

Some examples of CICs in the UK include the following,

[Hope Citadel Healthcare](#)

[Lynton and Barnstaple Railway Company Limited](#)

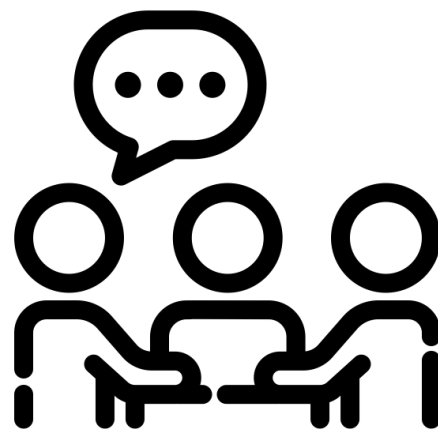
A co-operative society (co-op) or community benefit society (CBS) or Industrial & Provident Societies (IPS) are similar legal forms that exist to conduct business or trade. A cooperative society is run for the mutual benefit of its members while a CBS provides services for a wider community as well as its members. The main purpose of a co-op or a CBS is to help people take more control over their economic lives by owning and controlling the businesses in which they work or operate. Being similar in nature both a co-op and a CBS are encouraged to operate according to the core principles and values that were set out by the Co-operative Alliance in 1995, namely,

voluntary and open membership
 economic participation of members
 education and training
 concern for the community

democratic member control
 autonomy and independence
 working with other co-ops

The Articles of Association for a CBS and/or a co-op will make clear how surpluses are to be distributed in terms of either being re-invested into the business or used to pay interest or a dividend to their members. Membership of a CBS or a co-op is established by the purchase of at least one share and the price of the share is decided at registration of the enterprise. A guiding principle of membership is that there is only one vote for one individual member irrespective of how many shares that individual has invested in the enterprise. Active and large memberships are encouraged in these types of enterprises as they are key to the success of the enterprise in that they (i) generate support for the enterprise due to their financial interest, (ii) participate in committees and AGMs in a positive manner, and (iii) contribute to the organisation by acting as volunteers, management committee members, staff and advocates. The rules of a CBS or a co-op make it clear that the enterprise will not directly benefit an individual and that there is a maximum level of individual financial investment. Similarly on dissolution of the enterprise it is clear that any surplus assets cannot be distributed amongst members over the value of their shareholding and any further remaining assets can only be transferred to another organisation that broadly supports the objects of the original society.

Some examples of co-op / CBS in the UK include the following,
[Brighton Energy Co-operative](#)
[Greenwich Leisure Limited](#)
[Gilsland Spa](#)



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 from Noun Project

Organisations operating in the third sector as charities have tax exemption benefits and are dependent on grant aid or donations for their survival are increasingly adopting an enterprising mission as they develop strategies for survival. However, an organisation registered as a charity cannot trade. A **charitable incorporated organisation (CIO)** is allowed to trade and its trustees will benefit from limited liability but significantly a CIO cannot raise share capital from the community. In order for a charity to register as a CIO the mission of the organisation must be exclusively charitable and meet the public benefit test. The development of a CIO as a separate trading arm of a charity allows a former third sector charitable organisation to become enterprising and sell its goods and / or services to generate surpluses that can then be donated to the principal charitable organisation so as to enable it to continue delivering its mission.

Some examples of CIOs in the UK include the following,

www.larasfoundation.co.uk

www.khushifeet.org.uk

Further information on the available legal forms for UK based social enterprises can be found at:

Community shares.org.uk

[Charity commission](#)

[Plunkett Foundation](#)

[Co-operatives UK](#)

Classifications of Social Enterprise Types

Generally

The EU report (2015) indicates that systematic evidence on the type and prevalence of modes of creation, forms or types of European social enterprise is lacking but it is thought to include those that have been

- Citizen – led - such as community groups that come together address a particular local need
- Individual-led - such as a social entrepreneur starts up trading opportunity to meet a social aim
- Traditional non-profit organisations - such as those deciding to embark on a marketization and commercialisation process to offset loss of grant funding
- Charities, associations, or foundations - such as those deciding to either transform themselves or develop a trading arm
- Public sector organisations - such as those re-structuring and setting up a public sector spin out

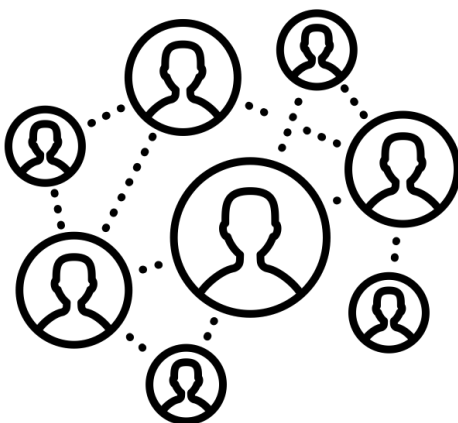
The Social Enterprise Synthesis Report (EU, 2015) (p.ix) also indicates that across Europe as a whole “social enterprise activity relative to the number of mainstream enterprise is small - perhaps in the order of less than 1% of the national business population”. Nonetheless it maintains that there is a lack of consistently used classifications of forms or types of social enterprises. The report uses the following classifications

1. Social & economic integration of disadvantaged and excluded (work integration and sheltered employment (WISE) –

- For instance in Romania - Law No. 219/2015 on social economy provides for the establishment of new types of enterprises, namely social enterprises and social enterprises of insertion. The law went into effect in August 2015, setting forth that social enterprises can be represented by: cooperative societies of 1st degree, credit cooperatives, associations and foundations, unions of employees, unions of pensioners, agricultural companies, as well as any other categories of legal entities that meet the definition and principles of social economy, as set out in this law.

2. Social services of general interest (care for the old, disabled, education, child care, employment & training services, social housing, health care, medical services)

- For instance in Romania - The Agricultural cooperatives are regulated by the Law on Cooperative societies (1/2005) and the law on Agricultural cooperatives (566/2004). A cooperative society is defined as “cooperative society is an autonomous association of natural/legal persons, with the aim of promoting economic, social and cultural interests of its members, and being democratically governed by its members (Law 1/2005, art. 7(1)).... The agricultural cooperative societies are defined as the association of natural persons for the aim of exploiting in common the agricultural area of shareholders, to improve together the common land, to together the equipment and value the agricultural products (Law 1/2005, art. 4(d)).” Because the two laws have slightly different and incomplete definitions, Antonovici et al argue that we need to use both definition in order to have a clear description of what an agricultural cooperative is. Antonovici, Corina - Georgiana, Carmen Savulescu, and Cristina Sandu. “The Agricultural Cooperatives in Romania: From Conceptual Framework to Profitable Local Production.” Journal of Public Administration, Finance and Law, no. 8 (2016).



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3. Other public services (community transport, maintenance of public spaces)
4. Strengthening democracy, civil rights, participation)
5. Environmental activities (reducing emissions, waste, renewable energy)
6. Practising solidarity with developing countries (promoting fair trade)



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The 4Lenses project ([4lenses](#)) sets out an alternative approach to classifying social enterprises in Europe. This approach has the following classification criteria namely,

- Mission - an organisation can position itself on a continuum between a clear profit mission and a clear social mission and be classed as being mission centric, mission related or mission unrelated
- Business / social purpose balance - an organisation can have the balance of its social activities either embedded within, or integrated with or external to its business activities
- Target market - an organisation can have different markets for the sale of its goods and/or Services
- Sectors of operation: examples include:- economic development, environment conservation, social welfare, Human development, arts and cultural preservation, health, agriculture, education and youth, democratisation and governance
- Programme areas - Examples include: economic opportunities, community and rural development, market development, employment opportunities, micro enterprise development institutional and organisational development

Spear *et al* (2009) indicate that the rapidly growing social enterprise sector is relatively new, and parallels the extension of the market into more and more activities in the public sphere. 'Transitions' was a repeated theme in the research, as entrepreneurial activity becomes more prominent. One important finding from the research was that the origins and paths of development of social enterprise can also have an important impact both on the way governance structures are constructed and developed, and on the types of issues and challenges that they face. For example those social enterprises that are spun out of the public sector spinoffs typically bring the culture of the public sector with them; they may lack business skills requiring board members and management with business expertise, and may have local authority and union representatives on the board. This suggested that a new typology of social enterprises based on their origins and development path would be useful.

Spear *et al* (2009) suggest a typology that has the following dimensions namely,

- A social enterprise that has its origins in *mutualism*, providing benefits or services to their members, for example credit unions and co-operatives.
- A social enterprise that has its origins as a *trading charities* that engages in trading activity either to directly further its charitable mission or to generate new sources of income that can be used to support its charitable activities.
- A *Public-sector spin-off* which arises when services are 'spun-out' of the public sector, for example 'leisure trusts' that are formed to take over the recreation and leisure services formerly run by local authorities.
- A *New-start social enterprises* that are new businesses created from scratch by social entrepreneurs. Many of these are linked to new social movements for example fair-trade organisations and many green or recycling organisations.

Given the above definitions it was resolved to adopt the following criteria as additional key dimensions by which the SEDETT project case studies organisations could be classified, namely;

- sector of operation or programme as key dimensions
- objectives, purpose, or mission,
- longevity or duration of operation



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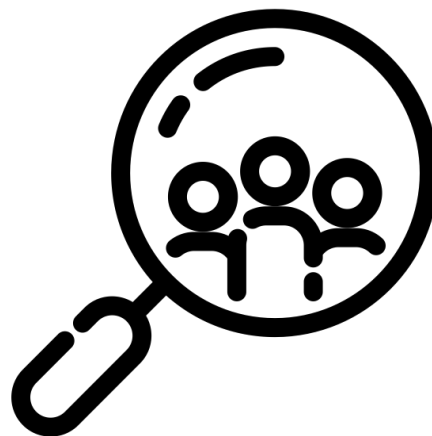
Table 1.1 (see www.sedett.eu) provides a summary of the SEDETT case study organisations in terms of their objectives, purpose or mission and their sector of operation

Table 1.1 (se www.sedett.eu) indicates that the primary sectors of operation for the SEDETT project case study organisations were the social welfare (7 organisations) and the economic and community development sector. Mission statements for the social enterprises operating in these two sectors indicate that their general objectives included supporting vulnerable people, addressing social exclusion and creating employment opportunities often in deprived communities. The spread of such organisations across the home countries of all partner organisations indicates the significance of social enterprise to these two sectors of operation. Other SEDETT case study organisations were drawn from the environmental conservation, the arts and cultural heritage, agriculture, and the education and youth work sectors of operation. Organisations from the health sector were not directly included in the SEDETT project although this is an area of social enterprise involvement that is expected to become more significant in the near future.

Table 1.1 see (www.sedett.eu) provides a broad summary of the case study organisations included in the SEDETT project and which are described in detail in www.sedett.eu

Table 1.1 indicates that the case study organisations included in the SEDETT project covers a range of organisational contextual variables that could be used to classify differing social enterprises (see later sub-section) such as

- the types of goods and services the social enterprise provides,
- the target groups for the social enterprise,
- the duration of operation or longevity of the social enterprise and
- the size of the social enterprise in terms of the numbers of paid employees and voluntary staff.



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Table 1.2 (See www.sedett.eu) indicates the profile of SEDETT project case study organisations in terms of their duration / longevity, size in terms of numbers of employees/volunteers and target audiences. Table 1.3 (see www.sedett.eu) summarises the SEDETT project case study organisations by their duration of operation or longevity. It can be seen that all the case study organisations had been in operation for more than two years and as a result were reliant on trading their goods and / or services in order to contribute to their business revenues. Most of the case study organisations have been operating for between two and four years and were located in the UK (2), Lithuania (3), Romania (1) and Poland (1). The organisations that had been operating for between five and ten years included those located in Poland (2) Romania (2) and Italy (1). Those organisations that had been trading for a longer duration than ten years were located in Italy (2), Ireland (2), the UK (1) and Poland (1).

This general spread of case study organisations broadly corresponds with the general profile of social enterprise found across Europe, namely that social enterprises have been established for a longer period of time in more developed European countries such as the UK, Ireland, Italy and Spain than in the developing countries of Europe such as Lithuania, Romania and Poland. This profile of case study organisations enables the SEDETT project to develop outputs that are trans-European in their nature.

Table 1.4 summarises the SEDETT project case study organisations by their size in terms of the total staff numbers and the numbers of paid employees and voluntary staff. In terms of total staff numbers Table 1.3 indicates that the SEDETT project case study organisations have a spread of small (1-10), medium (11-50) and large (50+) sized organisations with the majority of the case study organisations having a total staff resource greater than 50. However, this total staff resource is split between those organisations that use all paid staff and no volunteers (5) and those organisations that rely more on volunteers than paid staff to operate their business (8). This profile of case study organisations enables the SEDETT project to develop outputs that are trans-European in their nature.

Work undertaken in the SEDETT project uncovered additional criteria that could be used to expand the criteria used to classify social enterprises, namely business model in-use, target audience and forms of governance. Each are considered in more detail below and forms of governance as a criteria for organisational sustainability is considered in sub-unit 4 .

Business Models in Use

The Financial Times (2017) defines a business model as being “the means by which a company tries to capture value from its business”. Social enterprises need to exploit a range of sources of finance and it was found the majority of their revenue monies came from the public sector in the home countries of the SEDETT project partners. The principal business models in use across the project’s case study organisations was using either

- | | |
|------------------|--|
| 1. Public Funds | Revenue derived from public contracts
Direct grants / subsidies |
| 2. Private funds | Trading activity
Rental income on assets
Fees including memberships
Sponsorship
Donations
Other – volunteering time and in kind contributions |

Or were using a

3. Hybrid Approach Revenue derived from market and non-market sources

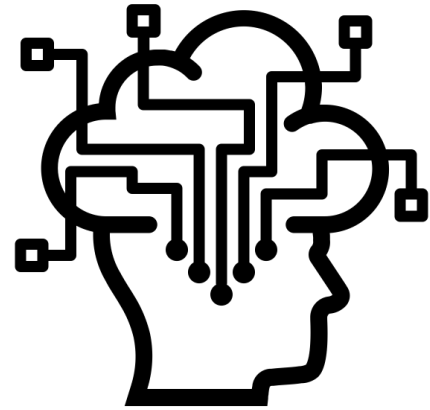
The 4Lenses project (www.4lenses.org) made clear that a hybrid organisation can be considered to be a socially orientated venture that has been created to solve a social problem or a problem caused by a market failure through the use of entrepreneurial private sector approaches and public sector grant aid that increase its effectiveness and sustainability whilst also creating social benefit or change.

A sustainable business model is needed by social enterprises in order to remain in business and continue trading and viable over a period of time.



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The business model needs to be economically, socially and environmentally sustainable so as to deliver the overall purpose or mission of a social enterprise. The concept that underpins this approach is known as the triple bottom line approach and it seeks to achieve a balance to a social enterprise's activities to ensure that they are equitable (social and economic concerns) viable (environmental and economic concerns) and bearable (environmental and social concerns).



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Social enterprises are developed in differing ways dependent upon the geographic, legal, economic and societal context in which they are operating. As a result there is no right and wrong model for use as each type of business model has its own advantages and disadvantages. For instance it maybe that the ability to access certain funding, or achieve certain tax breaks, or the existence of certain laws may determine the type of business model for a particular social enterprise. Whichever business model is chosen there will be a need to ensure that the mission of the social enterprise is capable of being delivered. Therefore key considerations when selecting a business model that is appropriate for a particular social enterprise would include

- to ensure that any community and stakeholder interest is reflected in the decision making processes of the social enterprise
- to consider what proportion of income for the organisation will be generated from grants, donations, fundraising, contracts for goods and services and any other commercial activity
- to consider how the social enterprise plans to raise capital to fund future growth and development
- to consider the consequences of adopting a certain legal structure in terms of the needed reporting and monitoring processes that is required
- to consider the image and reputation of the social enterprise in terms of how it is viewed by society as being primarily a commercial business or being a non-profit making business,

Alter (2007) identifies the following types of social enterprise, namely

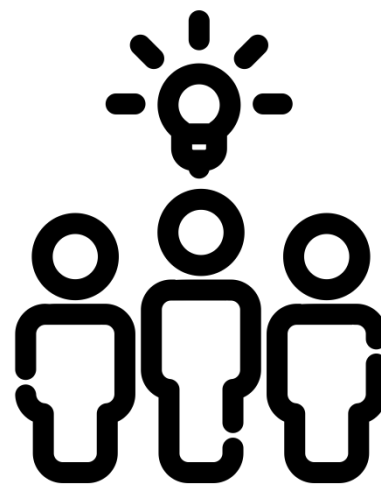
1. Embedded - The business and social orientated activities of an organisation are the same. A non-profit organisation may be created specifically to deliver its socially orientated mission. The business or 'enterprise' activities can be fully 'embedded' within an organisations operations and are central to its mission. Social programmes are funded through an organisations enterprise activities.
2. Integrated – There is a clear overlap between an organisation's social programmes and its business activities. Organisations create integrated social enterprises so as to access funding streams to support the non-profit's operations and mission related activities
3. External - The organisation's business activities are separate from its business activities. Non-profit organisations create external social enterprises to fund their social services and / or operating costs

Alter (2007) indicates that in general social enterprises can be considered to address one or other of the following areas of activity, namely

- a) commercial opportunities with a social dividend
- b) economic and community development
- c) service delivery
- d) creating employment opportunities for marginalised groups

The business model appropriate for an individual social enterprise needs to match the social aim / purpose of the organisation, its customer base, and the beneficiaries from the business activity. Each sphere of social enterprise activity may include the following types of social enterprise business models, namely

- I. entrepreneur support
- II. market intermediary
- III. employment
- IV. fee for service
- V. low income client as market
- VI. co-operative
- VII. market linkage
- VIII. service subsidisation
- IX. organisational support
- X. complex
- XI. mixed
- XII. franchise
- XIII. private – non-profit partnership



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The main features of each of the above types of business model that could be applicable to social enterprise organisations is now shown in Table 1.XX (see below) together with some case study examples of organisations located in differing parts of Europe. For a fuller consideration of each potential business model appropriate to social enterprise see (www.sedett.eu)

Table 1.XX Business Models in-use for Social Enterprise

Business Model	Key Activity	Examples	Key Requirements
Entrepreneur Support	Sale of business support services to targeted groups.	Micro-Finance organisations, consultancy firms, ICT support services	Appropriate training for the entrepreneur
Market Intermediary	Provision of marketing and advisory services to clients in order to access markets.	Supply co-operatives – Fair Trade; agriculture and handicraft organisations	Capacity to build sustainable networks to link producers and consumers.
Employment	Provision of employment and training opportunities to targeted groups (migrants, unemployed, NEETS, ex-prisoners) and sale of products / services on the open market.	Community enterprises; disability and youth organisations; prisoner rehabilitation organisations.	Job training appropriateness and commercial viability.
Fee for Service	Sale of social services directly to clients or a third-party payer.	Membership organisations, museums and clinics.	Establishment of appropriate fee structure (income stream).
Low Income Client as Market	Provision of services to clients who would not be able to access them otherwise due to affordability.	Health care; utility programmes; meals on wheels; subsidised Recreational and catering services.	Creative distribution systems, lower production and marketing costs, high operating efficiencies.
Co-operative	Provision of services (collective bargaining and bulk purchasing) to members.	Agricultural co-operatives; credit unions; community shops	Members need to provide an investment and have common interests / needs.
Market Linkage	Facilitation of trading relationships between clients and the external market.	Import-export, market research and broker services.	Needs to support excellent connections between clients and markets.
Service Subsidization	Sale of products or services to an external market to help fund other social programs The model is integrated with the non-profit organisation. The business activities and social programs overlap.	Consultancy, business advisory and training services	The ability to leverage tangible assets (buildings, land, employees) or intangible (expertise, methodologies or relationships).

Organizational Support	Similar to service subsidisation but applying the external model; business activities are separate from social programs.	Consultancy, business advisory and training services	The ability to leverage tangible assets (buildings, land, employees) or intangible (expertise, methodologies or relationships).
Complex	The combination of 2 or more business models within one social enterprise	Variable	Operational models are often combined as part of a natural diversification and growth strategy as the social enterprise matures.
Mixed	Social enterprise which operates multi-unit operations with different social and financial objectives; funding models.	Large multi-sector organisations in health, education and economic development	A large social enterprise which runs efficiently by virtue of having a number of subsidiaries.
Franchise	This model enables scalability and social value creation through replication.	Any successful and replicable social enterprise (predominantly retail and café / restaurant)	The social enterprise has to develop and enhance brand recognition, thereby enabling replication.
Private – Non Profit Partnership	Mutually beneficial business partnership or joint venture between a for-profit company and a non- profit organization.	Variable	The partnership has to provide tangible benefits for the social enterprise (lower costs / less restrictions or bureaucracy / improves public image or branding / enables new product development / access to new markets).

Examples of social enterprise organisations that are using the business models set out above in Table 1.XX that are drawn from the SEDETT project partners home locations across Europe can be found at (www.sedett.eu).

Table 1.5 (www.sedett.eu) sets out the principal trading activities and target groups / audience for the case study organisations included in the SEDETT project. According to the EC Report (2015) “There is strong commonality of target groups across Europe’s population of social enterprises but comprehensive and reliable data on target groups is lacking. As is to be expected, target groups closely reflect the sectors of activity of European social enterprises. The EC (2015) identifies the following target groups:-

- The provision of training, skills and job opportunities by WISE is targeted at those ‘disadvantaged in the labour market’. There is a strong commonality to the characteristics of these groups across national economies – women, people with disabilities, minority ethnic groups, migrants, ex-offenders, etc. Such characteristics tend to be reflected in those furthest from the labour market such as ‘long-term unemployed’, ‘poorly qualified persons’ and ‘vulnerable workers’ (and whose precise make-up reflect national economies and labour markets) **Target Group 1;**
- Addressing the social, economic and/ or environmental needs of a particular local neighbourhood or community. **Target Group 2;**
- More broadly, social enterprise seeks explicitly to tackle social issues through the substantial provision of social services of general interest. Provision is targeted not only at the full spectrum of vulnerable groups within the population (including, for example, children, youth, disability and poor health groups, the elderly, migrants, those in poverty, and those suffering exclusion on a variety of dimensions such as discrimination, housing, finance, etc.) but also to all groups in need in society. **Target Group 3.**
- Increased market-orientation of social enterprise – and its growing expansion into the provision of consumer goods and services – should be recognised also as introducing new target groups amongst consumers (and businesses). Such consumers can be seen to share the social values/mission of the enterprise (for example, renewable energy, fair trade, Reduced environmental impact, community development, etc.) and/or be willing to pay for the benefits and impacts of such new/innovative provision. **Target Group 4.**

Table 1.6 SEDETT Project Case Study Organisation by Target Group

Name of Organisation	Target Group/s (as described by the organisation)	Target Group (EC defined groups)
Agricoltura Nuova	People with mental disabilities	Target group 1
La Nuova Arca	Mothers in need Asylum seekers Refugees	Target group 1
Centro Astalli	Vulnerable women and children	Target group 1
Order of Malta	Vulnerable adults and children	Target group 1
Relative Art	Children for poor families	Target group 3
Social Promoter	Village community	Target group 2
CUIB	General Public	Target group 4
REDU	General Public	Target group 4
UtilDeco	People with HIV/Aids People with disabilities. Socially disadvantaged groups	Target group 1
Manufakturia	People with ASD/Aspergers	Target group 1
Spółdzielnia Nowa	Unemployed persons referred through the social welfare system	Target group 1
Zielony ogród	Local communities	Target group 2
Café Dobra	General Public	Target group 4
Caia Park Partnership	Local and regional community.	Target group 2
Glyn Wyffa	General Public	Target group 4
Tyn Y Capel Inn	General Public	Target group 4
Vic Studios		
Loughmore Tea Rooms	Local community.	Target group 2
Care Bright		
St Munchins		
El Roble	Seniors/Elderly	Target group 3

Table 1.6 see (www.sedett.eu) shows that in terms of target audiences the SEDETT project case study organisations covered each of the target audience groups (1-4) identified above. More than 50% of the case study organisations were either in target group 1 –related to developing work opportunities for disadvantaged people/ communities or in target group 4 – enterprises looking to sell their goods and / or services.

“Issues regarding legal and governance structures are central to the social enterprise movement. As businesses driven by a social mission, social enterprises often seek to protect that mission through their choice of legal or governance structure. As a growing movement, good governance is essential if the movement is to thrive and be sustainable. It provides legitimacy, accountability, and transparency for all stakeholders as well as consumers being served” (Social Enterprise Coalition).

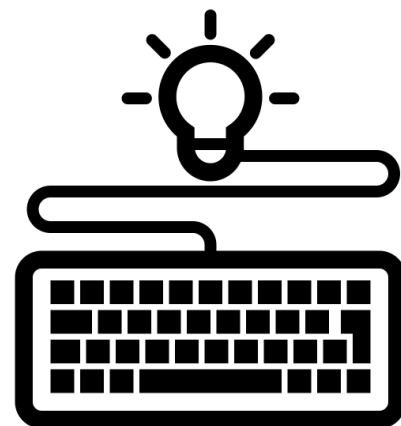
www.socialenterprise.org.uk

Governance has become a major requirement of all types of organisations within the developed world and, indeed, many developing countries are now judged, at least in part, on the quality of their organisational governance. Governance is defined by Cornforth (2004) as the “systems and processes concerned with ensuring the overall direction, supervision and accountability of an organisation”. Other definitions indicate that governance can involve the study of, and understanding of, power, relationships and accountability. It is generally accepted that governance involves the interactions among structures, processes and culture / traditions that determines how power is exercised, how decisions are made and how community stakeholders have their say.

It is particularly important to note here that governance can be defined by specific laws across differing European countries. For instance see the [UK Charity Governance Code](#) (2017) proposes the following principles that should determine how an organisation acts, namely,

1. Organisational purpose
2. Leadership
3. Integrity
4. Decision-making, Risk and Control
5. Board Effectiveness
6. Diversity
7. Openness and Accountability

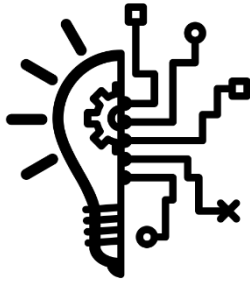
See more at www.charitygovernancecode.org
For examples of information related to governance that are particular to each partner country within the SEDETT project see (www.sedett.eu)



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The Characteristics of Good Governance

There are different forms of governance which apply to different types of organisations in different jurisdictions. However, there are some characteristics or principles of good governance which apply in all circumstances, such as there is a need to engage in



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- I. Accountability
- II. Equitable Treatment
- III. Vision to create long-term value
- IV. Ethics
- V. Responsibility
- VI. Transparency

The Financial Reporting Council (2016) in the UK proposes the following for UK Companies. This list includes the following basic principles which it is asserted could also be applicable to social enterprises, namely

Leadership - Every company should be headed by an effective governance board which is collectively responsible for the long-term success of the company.

Effectiveness - The board and any of its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Accountability - The board should present a fair, balanced and understandable assessment of the company's position and prospects.

Remuneration - Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

Relations with shareholders - There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place (Financial Reporting Council, 2014)

These are the governance principles which are suggested for commercial companies. However, while not community or voluntary organisations, social enterprises bear many of the characteristics of those kinds of organisations and in that context some other codes are worth considering.

The Characteristics of Good Governance

A Committee (or Board) of trustees is composed of a small group of people empowered by the organisation to act on its behalf. The role and size of the Committee or Board may vary depending on the nature of the organisation.

Boards or main committees are fundamentally responsible for the strategic direction and oversight of an organisation. However, in a smaller organisation they may also be responsible for deciding many operational matters and, indeed, in the smallest organisations, be responsible for carrying out many of the organisation's tasks. What is very important in this latter case is that the strategic and oversight role of the Board or committee does not get lost in the major demands of the operational activities. One way of addressing this is to appoint one person to be responsible for ensuring that the strategic and oversight duties are carried out and that all legal requirements are addressed. This person could be the secretary.

The Board ensures that the social enterprise :-

- is well run and solvent and that its funds are used appropriately
- is legally compliant
- acts within its stated vision and mission
- operates with integrity and avoids conflicts of interest
- develops a clear strategy

The existence of a Board can provide evidence of an enterprise having a good governance system, and a clear strategy. In addition the existence of a Board can provide confidence to a social enterprise's external stakeholders and be a mechanism that brings in additional skills, experience and business expertise.

Boards or committee may be appointed in one or more of the following ways:

- Elected by members
- Nominated by other organisations
- Ex-officio members because of their role in the organisation or in another organisation
- Co-opted to the committee to bring a particular skill or to represent a particular point of view which might not otherwise be included

A committee or Board must try to be a number of things at the same time.

1. Representative of the organisation's membership and stakeholders
2. Competent with respect to its capacities and skills
3. Independent in its capacity to hold the executive to account on the basis of objective criteria
4. Available and committed to providing the time and effort which is required in order to enable the organisation to operate effectively and efficiently.

It is now considered important that a range of financial, HR, strategic, and governance skills are required on any committee or Board and that its structure and processes should allow for this to be achieved.

The Board or Management Committee may, in larger organisations, have a number of sub-committees reporting to it on a regular basis, with each one focusing on a particular function within the social enterprise). These sub-committees are very useful as they can:

- Share the workload.
- Get and provide specialist expertise on particular topics.
- Focus on people's real interests.
- Develop a real capacity and knowledge in a particular area.
- Access people who would not be willing to serve on a full Board.



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Common governance challenges

The empirical work of Spear et al (2009) and Defourney et al (2014) on governance and social enterprises suggested that voluntary and non-profit organisations faced a number of common governance challenges such as

Membership

It was found that attracting individuals with necessary business related skills and experience was a challenge for many social enterprises especially for those that were located in areas of social deprivation where there were few locally based skilled individuals. The inclusion of non-local business professionals increased the capacity of the Board to become engaged in strategic planning exercises to ensure the enterprise remained sustainable. However, it was found that as the nature and level of business expertise of Board members changed from being locally based stakeholders to include more business related professionals then there was also a tendency for tensions to arise between the social and the business goals of the organisation.

In addition it was found that in order to make good use of the time individuals on the governing body were prepared to devote to the enterprise it was necessary to ensure the regular scheduled Board meetings were properly structured and managed. The findings also suggested that to be effective individuals on the governing bodies of social enterprises needed to attend Board meetings regularly, be properly inducted into the organisation and to be prepared to devote time to on-going training and upskilling.

Decision Making

It was found that as social enterprises became larger and more diverse in the nature of the goods and / or services that they provided so the governing body needed to become more strategic in their nature. Initially small sized social enterprises and the individuals concerned with their governance were found to have a more hands on managerial approach to discharging their duties. As social enterprises became for sustainable businesses there was a need for the roles and responsibilities for governing bodies and paid management staff to become clear. This change could be problematical for some social enterprises that have failed to put appropriate business control and scrutiny systems in place and / or have recruited the wrong managers due to the Boards lack of experience and expertise.

Similarly, it was found that the decision making processes and the extent to which they allowed for democratic participation was an issue for some governing bodies as social enterprises changed from being tightly controlled by a small group of founding stakeholders who made the necessary business decisions into a business organisation which separated its governance procedures from its management processes. In such mature social enterprises with such an established distinction between governance and management procedures a further challenge was empowering Board members to question or challenge the executives of the enterprise in a constructive manner. Social enterprises operating across Europe may find themselves subject to the particular laws of an individual European country in relation to the type of business decision that can be allowed to make.

Autonomy and Size

The legal structure adopted by some social enterprises constrained the extent to which they could be considered to be operating in business on an independent basis. This was found to be particularly true of those social enterprises that have grown out of charitable, often church based organisations. In such circumstances it can be difficult for governing bodies to make independent strategic business decisions.

The succession planning for and the recruitment of appropriate individuals to join a governing body of a social enterprise were found to be on-going issues for social enterprises. This was especially the case when an enterprise was transiting from being a small sized locally based organisation that relied on volunteers to provide resource for the organisation's operation. It was found that as such volunteers aged or became overwhelmed and wished to step back from their commitment to Board of the enterprise so it was an issue to locate suitable replacements. If such replacements were not located than a further issue was the decrease in the size in terms of numbers of individuals making up the Board of Governors and the consequent potential impact that would have on good decision making. It was found that many sustainable social enterprises made good use of local and national networks of supporting organisations to ensure that the autonomy and size of their Boards of governors were maintained at appropriate levels.

In addition to the above issues (i) – (iii) it was found that it was important for Boards of Governors associated with social enterprises to find time and resource to reflect on its own performance on an annual basis in terms of an internal audit of its own performance in relation to the delivery of the organisation's mission and vision as well as its own operation and effectiveness. It was suggested that a Board of Governors engaging in such a reflective process could have it enhanced by the incorporating external evaluative viewpoints of internal organisational stakeholders and external beneficiaries in the community.

For further information please see
www.centrefornonprofitexcellence.org
www.governancecode.ie
www.cicregulator.gov.uk
www.socialenterprise.org.uk

The challenges to the effective governance of social enterprises identified above by Spear et al (2009) and Defourney et al (2014) are illustrated in Fig. XX below in the initial high level conceptual model of components contributing to the governance element of the social enterprise capacity assessment tool. The main components of the model are indicated as being (a) committed membership, (b) strategic decision making and (c) autonomy of operation. The operational aspects of conceptual model are supported by external factors termed as being (i) regular review and (ii) external evaluation. Each main component of the conceptual model is now explored in turn for support and further expansion to identify related features from the data analysed from the case study interviews undertaken in connection with the SEDETT project.

Fig. XX An initial high level conceptual model of components that comprise the governance element of the social enterprise capacity assessment tool (SECAT)



a) Committed Membership

Size, Expertise and Diversity

The literature reviewed shows that as a social enterprise becomes more mature and starts to become larger and more diverse in the nature of the projects in which it engages so there is a need for its governing body to change in terms of its size, nature and level of business related expertise if it wishes to remain sustainable.

The evidence drawn from the analysed data from the SEDETT case study interviews shows support for the above literature in terms of the size, levels of expertise and diversity of its governing body, as follows,

I started with myself, Maeve and Mary and the parish priest as the management committee at that time". (Ireland).

"Yes, we have 5 members of the board who are active members of the organization and they have contributed to its development and supported us". (Romania)

"The Board is formed by 3 persons who cooperate with the general assembly and a member from the Society of Jesus as a supervisor". (Italy)

Then as an enterprise becomes more mature the data shows that it increases in its size and range of and as a result the composition and the nature of the skills required by the management committee members change from the Board being made up of locally based individuals with a commitment to the social purpose of the enterprise to a body that contains individuals with differing business related skills who may not fully share the original commitment of the founding members of the social enterprise to its stated social mission as indicated below,

"The pub initially got going through the voluntary efforts of a lot of people and there was a vibrant committee of volunteers but once the initial community business was formed then some of the volunteers stepped back as they thought this role was not for them as they either did not have the right skills". (UK)

"We now have seven people on our board. We handpicked people who could bring different strengths to us. Our Chairperson is a member of the board of ICOS which was very handy. The parish priest is our joint treasurer with me, as you'd want somebody of their status on the Board. Then we have a person with journalistic skills. Then there are three local people with interests in rural development. They all have different types of backgrounds". (Ireland)

“There are 3 members, namely the president ... She’s a trained social worker with a master’s degree in education and currently developing a PhD in strategic management of social economy business; A beneficiary who is a representative of beneficiaries with disabilities. He graduated from two colleges, one technical and one in the medical field, currently working in the medical field. The third member is a representative of employees who graduated from the faculty of engineering economic and financial management, currently developing a PhD in social economy business”. (Romania)

“There has been a change in the make-up of the Board of Trustees over the years. At the start we were all volunteers and we were all local people and quite a few of the first Boards of Trustees were retired people who were looking for something to do basically. But now we are a board with a certain amount of expertise. We now have a strong board of 8 or 9 people all with differing skills and abilities ... some are local residents and others are volunteers with specialist skills and experiences. When I arrived the Board was 100% made up of local residents this was good but it did lead to local tensions. This is especially true today ... no group of Trustees involved in providing governance to a growing and successful social enterprise can afford to just bumble along anymore... there is a pressing need to ensure that people with the required business and enterprise skills are brought onto the Board so as to ensure the organisation keeps moving forward. (UK)

“The people on the original Board all had different things to offer but looking back, the crucial thing was that none of the Board had experience of starting up a business from cold. Quite a few on the Board were from the public sector and so their experience did not count as finance does not work the same there as in the commercial world. After a while I think this lack of experience began to show ... but having people on the Board with those business skills provides a balance and keeps everything in perspective and allows the enterprise time to reflect and make perhaps better decisions. (UK)

“It strikes me now, looking back at the start of the enterprise just how important it is to have the right people involved with the governance of the organisation ... people who share the mission and values of the organisation”. (UK)

The above examples of analysed data supports a finding in the literature that social enterprises wishing to become more sustainable face a challenge in changing the size, nature, profile and level of expertise of its governing body and that this change could cause tensions to arise in the balance between the business and social aims of the enterprise.

Attendance and training

The literature reviewed above shows that in order for a social enterprise to become sustainable then it needs to attract members of the governing body that are willing to commit to attending regular meetings and training sessions to develop their expertise.

The examples of evidence drawn from the analysed data from the SEDETT case study interviews shows support for the above literature in terms of there being a range of commitment levels that can vary from (i) minimal levels :-

“I came last night to the AGM”. (Ireland)

“We meet at least twice a year, usually we have an informal event for it”. (Romania)

To (ii) intermediate levels – i.e. what is prescribed by national laws such as,

“The statutes indicate that meetings will be held every two months” (Spain)

To (iii) full commitment levels that indicates a greater level of organisational involvement such as

“We meet once a month. We compile the accounts on a monthly basis. So once the accounts are done, we call a meeting and it’s well attended We talk every day outside in the kitchen. So if there’s something wrong we sort it”. (Ireland)

“In practice the periodicity for our meetings is almost monthly sometimes more for extraordinary matters. There is also an annual assembly which actually meets twice a year”. (Spain)

“As a result I was being called on to help out down here on a daily basis”. (UK)

“If you look at Board ... we have a retired solicitors and teachers ... and we are always looking for people who can bring something to the party. We do not want people who want to be there in name only”. (UK)

In terms of training and self-development of governing body members it was evident that this sort of activity was needed by smaller social enterprises that were seeking to grow in order to remain sustainable. An example from the analysed data shows that,

“In the very early days there were training initiatives on looking for grant funding and some advice on being on a Board and what it entailed in terms of commitment”. (UK)

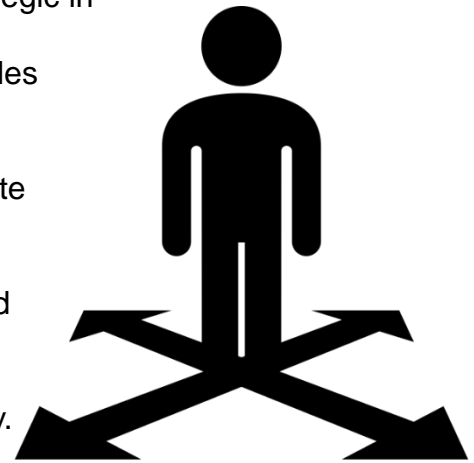
However, there was a lack of evidence that provided support for a finding in the literature that social enterprises wishing to become more sustainable needed to provide induction and training sessions to members of the governing body in order for them to develop their expertise.

b) Strategic Decision making

The literature reviewed shows that as a social enterprise becomes more mature and starts to become larger and more diverse in the nature of the projects in which it engages so there is a need for its governing body to become more strategic in the nature of its decision making, have clear roles and responsibilities that were different from the management roles of the paid staff and have adequate control and scrutiny processes in place to ensure the staff they employed were sufficiently skilled and capable of taking the most appropriate decisions.

The literature indicated that adopting transparent and democratic approach to decision making that respected the national legal boundaries of what was possible for a social enterprise was the way in which good governance procedures could contribute towards business sustainability.

The evidence drawn from the analysed data from The SEDETT case study interviews shows support for the above literature in terms of roles and responsibilities, democratic and transparent strategic rather than management decision making, use of effective control and scrutiny processes and an awareness of local and national political contexts as follows,



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Roles and responsibilities

Evidence of the overall role of the Board of Governors to be involved in strategic decision making can be found in the following comment, namely,

“Well, one of the first exercises we did as a management committee was a visioning exercise in which we considered where we wanted this place to go”.
(UK)

“Although the farm is a cooperative in terms of strategic decisions then they are the responsibility of the Board of governors”. (Italy)

Evidence of the transition from being a small sized organisation with diffuse areas of responsibility for management and strategic leadership can be found in the following comment

“The processes have been improved, but there is still more to be done. The shortcoming is that, because of being a small organisation, the founders on the Board are still very involved and the persons that are most active in the board are the persons most active in the operational activities of the enterprise as well”. (Romania)

However, the relative size of the social enterprise is not the only determinant of whether there or there are not clear roles and responsibilities for board members, for example,

“The ownership of the farm is of the cooperative. For what it regards the strategy decisions, perspective, they are the responsibility of the board”. (Italy)

“We have developed the roles and responsibilities of the Board and we were starting to assign these roles and responsibilities to key individuals such as the Chair, the Secretary and the Finance Director”. (UK)

“We make separation of powers clear - people who are managers of the company cannot be on the Governing Board”. (Spain)



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Transparency and democracy

The examples of evidence drawn from the analysed data from the SEDETT case study interviews shows support for the above literature in terms of democratic and transparent strategic decision making rather than management decision making in smaller or less mature social enterprises can sometimes but not always be challenging, for instance, “In meetings some people will talk too loud and for too long, others have really good ideas, but, haven’t got the confidence to shout out, a good Chair will allow everyone to speak and test those ideas from individuals before any decisions are made”. (UK) However, more positive evidence of transparent and democratic decision making was also revealed as follows,

“Organizational decisions are taken at the level of the three people directly involved in managing the organization's activities, and strategic decisions on direction, and principles of operation are taken in the general assembly of active volunteers and employees are also consulted employees”. (Romania)

“We had an AGM recently and everyone spoke and participated and you would really feel that there was a community commitment to the project” (Ireland)

“Usually we discuss and make common decisions by consensus. We consider all proposals to ensure the involvement of all in the social business”. (Lithuania)

This transparent and democratic approach to decision making was also found to be evident in larger, more established social enterprises, for example,

“Yes. We meet once a month and everyone has their say. The café manager comes too and tells us what is going on”. (UK)

“People who are managers of the company cannot be on the Governing Board as this really guarantees democracy and participation”. (Spain)

“Decision making is totally consensual and participatory ... although it is established that decision will be taken by voting and majorities it almost never happens in the governing council as decisions are decided on either unanimously or by consensus. (Spain)

“We are a cooperative of social work. We belong to the Andalusian Federation of Societal Cooperative Companies ... this is a very beautiful and democratic model. One partner, one vote”. (Spain)

Control and scrutiny

The examples of evidence drawn from the analysed data from the SEDETT case study interviews shows some limited support for the above literature in terms of Boards of Governors being able to make strategic decisions by having access to effective management control and scrutiny processes as follows,

“We make all the key decisions, we employ a manager who is competent and does not need to be micro managed ... all ideas that come from the manager are considered and acted upon if they make good business sense”. (UK)

However, if such scrutiny processes are not in place the following is an example of what can go wrong if the appropriate scrutiny processes are not in place,

“I think it was our inexperience as a committee ... even though we had hired and paid a manager we probably were not very clear in identifying just what type of person we were looking for or what we needed to watch in terms of the accounts ... we did not know that at the time and we, as a committee thought that we were just doing it wrong when we had to replace the manager and start the recruitment process again”. (UK)

“We found that the persons we employed did not have the experience that we were looking for in running an enterprise such as this ... and in fairness that was probably our fault as a committee in that we did not check on them properly”. (UK)

Awareness of context

The examples of evidence drawn from the analysed data from the SEDETT case study interviews shows some limited support for the above literature in terms of the need for Boards of Governors to be aware of local and national political contexts when making strategic decisions as follows,

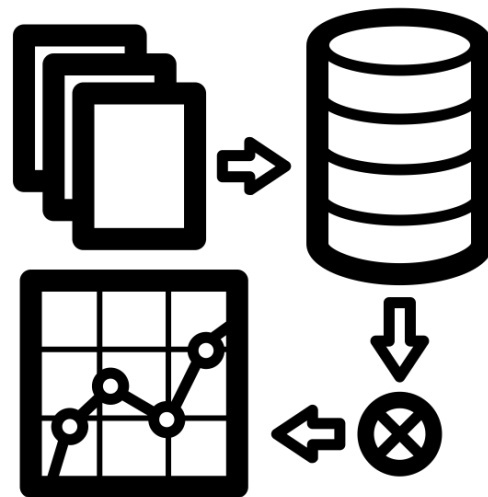
“When we are talking about social enterprise is good to get involved or to bring state persons or municipality persons to your enterprise, not just because they could help or somehow run your enterprise, just because they could help to know the situation in municipality or state level”. (Lithuania)

“Some question how we have so many links to the political party of local government”. (Spain)

“Social enterprises should involve persons from the municipality or the state ministry to make sure that the social enterprise is going well and in the right direction. The municipality could really help”. (Lithuania)

Autonomy of Operation

The literature reviewed shows that as a social enterprise becomes more mature and starts to become larger, more diverse and sustainable in nature so there is a need for its governing body to be autonomous in its operation. The literature indicated that the organisation’s origin and legal structure, size and recruitment and use of support networks were features that impacted on social enterprises and their governance processes. The evidence drawn from the analysed data from the SEDETT case study interviews shows support for the above literature as follows,



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Size and recruitment

The examples of evidence provided below indicate that it is critical for the Board to have the appropriate numbers of trustees and that there is a process that allows a social enterprise to regenerate the members of the Board in terms of recruitment, for instance

“Our Chair, vice-chair and treasurer are all local people .. many similar organisations find it hard to recruit local people, yet we seem to have a good local group” (UK)

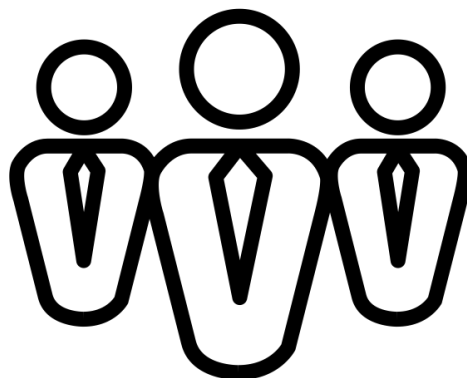
“When we were a smaller Board in numbers there was a danger that it was dominated by one person This was not a healthy situation ... what I have done is look for Trustees that are not under the influence of that person”. (UK)

“One of the risks that has been raised is the need to find younger people to become involved as trustees at Board level”. (UK)

“It is important that you have trustees on the Board that are positive, culturally and personally open to considering new initiatives and who realise that the status quo will not last forever .. we have a strong Board now with 8 or 9 persons all with different skills and abilities and we now need to engage in succession planning”. (UK)

“A threat to the sustainability of the enterprise is related to the small number of directors that are currently in position and if for whatever reason one or more decide that they have had enough then the governance side of the enterprise would fall on very few shoulders and could become problematic”. (UK)

“The issue is sustainability ... those Board members that have now been in place for sixteen years succession planning is difficult, as we have only attracted only one new member to the Board ”. (UK)



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Origin & legal structures

Social enterprises that originate as new community based business organisations adopt a legal structure that enables them to trade independently. However, social enterprises that originate from charitable, religious or other third sector organisations, especially those located in parts of Europe that were formerly state controlled are sometimes prevented by law from operating as fully autonomous organisations, others choose not to do so for other reasons including financial support. Examples of evidence that illustrate the above issues drawn from the analysed data from the SEDETT case study interviews are as follows,

“I think is quite necessary to be independent as organization and as an enterprise”. (Lithuania)

“One of the most important characteristics is that we are independent”. (Italy Case Study 3)

“We are, I think, totally independent Even though we have been linked to the dominant political party of our local government, we have our own way of working” (Spain)

“I consider our organisation to be independent. It is the property of the Jesuits but they let us work”. (Italy)

“Yes we became a limited company co-owned by the mother company and the members of the enterprise”. (Romania)

“We are a social enterprise and we are closely associated with two other legal entities which helped to found our organisation ...having said that, our social enterprise is an autonomous organisation and so are the decisions made by our board. The two founding associations have a right to inspect our documentation but we don't have to ask them anything when we make our decisions. (Poland)

“Yes, we are independent. ADV Romania is registered as Romanian foundation, as required by National laws, is independent of state authorities and not conditioning membership to any ideology, doctrine or religion”. (Romania)

“Yes, we are the ETAP association and our centre belongs to this association and as a centre for social integration we cannot be an independent entity”. (Poland)

“It depends on what independence means, because we are technically in the third sector as we have NGO status, so it is not independent from governmental institution or state funding, but at the same time we are quite independent from our clients. It's a relative thing”. (Lithuania)

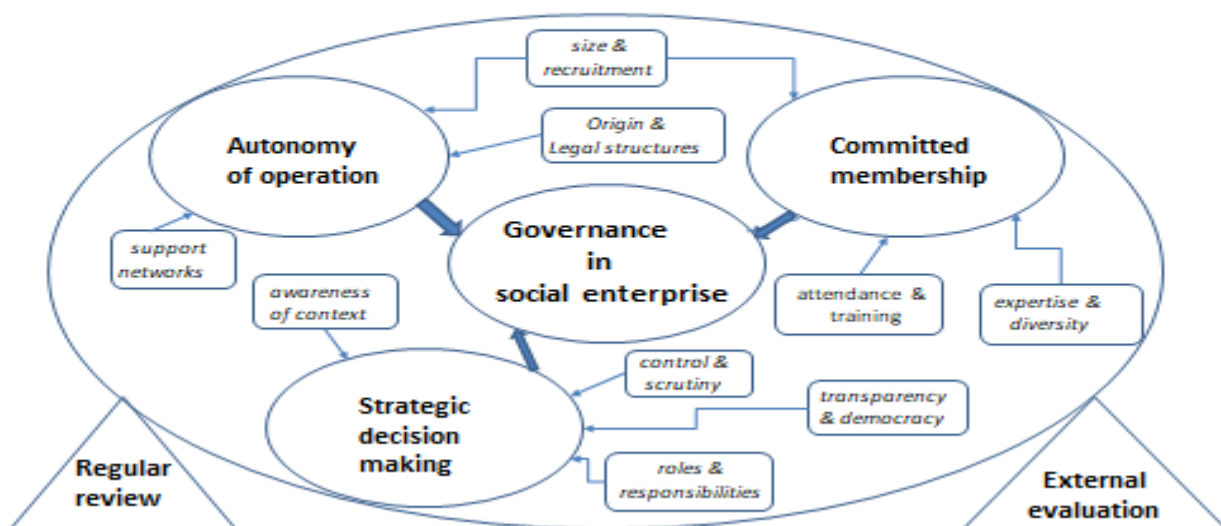
Support networks

The existence of formal and informal networks of supporting organisations and quasi government agencies was thought to be a significant factor in the literature reviewed above in relation to the role of Boards of Governors and social enterprise sustainability. The evidence considered from the data analysed from the case study interviews provides little support for the existence of support networks as being a feature within the autonomy of organisation component identified in the emergent conceptual model shown below in Fig.xx. More information on the role of support networks in social enterprise sustainability can be found in section xx.

Summary

The examples of evidence drawn from the analysed data from the SEDETT project case study interviews confirms that the main components of the governance element of the framework of factors affecting social enterprise sustainability are (i) committed membership, (ii) strategic decision making and (iii) autonomy of operation. Fig.xx. below illustrates a partly grounded conceptual model of features of the main components that enable organisational profiles of capacity in relation to the governance element of social enterprises to be established. The conceptual model illustrated in Fig.xx. cannot indicate which of the components nor which of their relative features are more significant than others in terms of the impact that they have on the governance element of the social enterprise capacity assessment tool (SECAT). For such issues to be addressed then there is a need for further work to be undertaken in this topic area.

Fig. XX A partly grounded conceptual model of components and their features that comprise the governance element of the social enterprise capacity assessment tool (SECAT)



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