

DOES THE GLOBAL RISE OF SOCIAL ENTERPRISE HERALD THE END OF CHARITY?

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INTRODUCTION

In April 2015 I was in Oxford, UK for a dinner during the Skoll World Forum on Social Entrepreneurship. As the day came to an end, social entrepreneurs from across the world spilled out onto the streets, navigating the alleys and cobbled lanes, with the help of conference staff, on hand to direct them to their lodgings in the university's venerable colleges. The juxtaposition of the old and the new always strikes me when the Skoll World Forum comes to town.

Amid the awards, celebration and enthusiasm for social enterprise, it can appear sometimes as though the new is here to wipe away the old: that the rise of social enterprise brings with it the end of outmoded vehicles for social change, such as charity and philanthropy. The loudest evangelists for social investment have been known to utter such proclamations.

So should civil society be listening to them? And how seriously should we take these claims? Is social enterprise a new dawn, or is it a bit too good to be true?

THE RISE OF SOCIAL ENTERPRISE

Social enterprise is undoubtedly a growing movement. Forty years ago the term didn't exist. Now there are dedicated world forums, global networks, incubators and investors. It is clear that there is something big happening here. But it's difficult to work out exactly

what is going on, given that defining what a social enterprise actually is remains heavily contested.

Social Enterprise UK offers the following definition:

“Social enterprises are businesses that trade to tackle social problems, improve communities, people’s life chances, or the environment. They make their money from selling goods and services in the open market, but they reinvest their profits back into the business or the local community.”

Even this definition overlaps significantly with organisations that might otherwise be called charities (and indeed, charities can readily be categorised as social enterprises, provided that they sell goods or services). As important as the trading feature is, the distinction is that social enterprises place constraints on the distribution of profits, which ensures that they remain committed to public rather than private benefit. This marks them out from enterprises that are primarily for private benefit (of shareholders and owners).

Yet the boundaries between social enterprise and for-profit business have become more muddled of late. There is a proliferation of different organisational forms: social purpose businesses, or profit with purpose businesses, have started to be seen as part of the same group as, or at least close relations to, social enterprises. Debates about asset locks, or mission locks - mechanisms that protect organisations’ resources and focus from drifting away from their social aims - have come to dominate this contested territory.

To some extent, it can be argued that these definitional debates are unimportant: that what matters is how organisations deliver social change and social impact,

regardless of precisely how they’re constituted. But these debates set the stage for a bigger discussion about the nature and roles of different sectors in society, and the interaction of public sector, private sector and civil society.

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THE BIG PICTURE VIEW

A macro view of social enterprise needs to start from an understanding of the roles of the public sector, private sector and civil society.

The public sector is funded through taxation and run by governments on behalf of their constituents. We vote to determine society’s priorities, and delegate decision-making to politicians and civil servants to develop and deliver public services. The private sector is funded through sales of products directly to customers, and run by boards on behalf of shareholders, or by owners themselves. We vote as customers with our purchasing decisions.

Civil society organisations (CSOs) are different again. These are typically funded through grants, donations and fees for products or services, and are run by trustee boards on behalf of their stakeholders or beneficiaries. As donors we vote through our giving decisions, but as beneficiaries we have no vote.

We can argue that, in democratic contexts, the public sector prioritises and addresses needs in response to

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our voting behaviour; the private sector deals with the needs that can be fulfilled profitably by selling directly to us; and civil society deals with everything that's left over: the things that aren't profitable enough to constitute a functioning market, nor prioritised highly enough to be run by governments on our behalf.

What's important here is the different relationship that unfolds between us as citizens and the products, services or activities developed on our behalf. The public sector has a clear accountability mechanism through the democratic vote. The private sector has a clear accountability mechanism through consumers' purchasing decisions. Civil society has neither. This gets us into interesting territory when we compare CSOs and social enterprises.

ARE SOCIAL ENTERPRISES MORE ACCOUNTABLE THAN CSOS?

CSOs exist explicitly and solely for public benefit, yet their accountability mechanisms are often absent. Those who fund charities act as proxy buyers for the products and services charities offer, which are not paid for by their recipients. For CSOs to be accountable to those they aim to serve, there needs to be a feedback loop between what CSOs say they want to achieve for their constituents, what actually happens, and how this information guides funders'

behaviour. In such a system, effective CSOs would attract funding, while ineffective ones would not. It's a nice idea, but this feedback loop doesn't work (yet). Many CSOs are far from routinely assessing the actual results of their work. Funders are even further from using such information to make their decisions. Effective CSOs often struggle to attract funding; ineffective ones with good marketing often thrive. Much more can be said on this: it is the central dysfunction of the UK charitable sector that my organisation, New Philanthropy Capital, has been committed to tackling for the last 14 years. For all our work and progress in that time, we certainly haven't cracked it yet.

Social enterprises, however, offer a tantalising promise, of combining the information that markets create with the public benefit that CSOs are explicitly committed to deliver. A social enterprise that earns revenue by selling products and services to customers, who as a result receive the social benefits the organisation aims to deliver, doesn't suffer the proxy buyer problem. If its products are effective and offer good value, customers will buy them. The market tells us whether the social enterprise is effective or not.

Unfortunately, it turns out that nothing is quite as simple as it seems.

BLURRED BOUNDARIES

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are funded by proxy buyers - often local or national governments - to deliver those products on behalf of their constituents. In these cases, the purity of the market-based model does not hold when it comes to information generated by purchasing choices. As with CSOs, this means that social enterprises still rely on proxy buyers making decisions based on information about the effectiveness of the products and ser-

always has a significant role in attracting investors and their money, who would otherwise focus on lower hanging fruit. Even the tech sector, current darling of investment markets across the globe, is often heavily subsidised to make it investable.

Perhaps social enterprise and social investment aren't so different after all. Governments play a huge role

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vices procured. And those proxy buyers are no more reliable in this regard than CSO funders. Some would argue that these social enterprises, relying at least in part on proxy buyers, do not operate in the genuinely open market occupied by private sector businesses. Yet it turns out that the private sector has its own blurred boundaries.

Discussions of the three sectors often overlook the role of subsidy, on which many industry sectors rely, at least to some extent. Energy, rail, farming and banking in the UK would look very different without government subsidy. What look like viable markets at first glance often turn out to be propped up by public funds. In developing markets, subsidy almost

in subsidising and grant-funding early stage models. Some would argue that social enterprise and social investment in the UK simply wouldn't exist without the support of government to inject capital into its development, build infrastructure and attract mainstream investment.

GETTING PAST MAGICAL THINKING

Ultimately, while it is convenient to paint the traditional sectors in broad brush-strokes, it is also unhelpful. The boundaries between revenue derived from

customers, investors and proxy buyers are so blurred that generalisations mean little. When we think about the role of business or enterprise in contrast to the role of civil society, this is important.

Civil society exists to complement the public and private sectors. (It also exists to challenge both, and there is a separate debate to be had about exploring that role and how it is funded.) As a complement to public and private sectors, the purpose of civil society is to address social need when government and markets fail, and to empower overlooked citizens and consumers.

Sometimes market failure can be addressed through mechanisms that will eventually create functioning markets. Subsidies to developing industry sectors have done this for hundreds of years. Social enterprise can offer such a path in some cases that have been overlooked by the private sector, perhaps through a better understanding of potential customers' needs and through models more closely aligned with the lives and behaviour of previously excluded customers' lives.

But social enterprise can never be a magical panacea for market failure. There are some groups of people - as well as some geographies and some issues - for whom the ability to pay for products and services cannot determine whether they are able to receive the products and services they need.

There will always be a need for civil society to do what the private sector or social enterprises cannot. That does not mean we should overlook the great volume of innovation to be found within the social enterprise sector, nor the enthusiasm and drive of those wishing to build business models that deliver social impact whilst generating profit. But it does mean that we should bring nuance to our understanding of the relationship between different sectors and organisational forms.

And if you work for a CSO, the next time a funder asks how your organisation is going to guarantee a path to sustainability, consider reminding them that magical thinking is overrated. Some things that are important to do simply can't be profitable.
