

**Enterprise and innovation in deprived urban areas
sharing the European experience**

The Network partners – Amsterdam, Hamburg, London, Milan and Prague – are all actively developing and implementing policies to promote enterprise in deprived urban neighbourhoods. Through LNet the cities will develop common approaches to realising the economic and social potential of deprived urban areas and practical tools to support enterprise in these areas.

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LNET Policy Bulletins are designed to summarise practitioner discussions for a policy audience, recommending where appropriate changes to policy, legislation or organizational competences. This issue focuses on social enterprise and the lessons learned from the exchanges and discussions which took place during the first LNet workshop in Milan on 10th -11th February 2005.

Defining Social Enterprise: a comparative analysis

In spite of a long tradition and practical experience on the ground, social enterprise has only in recent years made its appearance in the public policy realm. And this is possibly what makes social enterprise difficult to define, given the conceptual framework was superseded by a variety of concrete manifestations. At a European level, diverging historical, economic and social paths have meant that, while the concept of an enterprise with social goals is widely accepted, the actual 'label' of social enterprise is not widely understood or applicable. Defining social enterprise is also challenging on the level of the terminology used. The expressions social economy, third system or sector, are all used to define a similar field of research: social enterprise.

The expression of social enterprise in LNet's partner cities clearly demonstrates these definitional issues. In the most widely accepted interpretation in the Czech Republic, social enterprise is a type of co-operative which employs disadvantaged people. In The Netherlands, the distinction between social enterprise and socially responsible enterprise appears to be blurred: social enterprise is also seen as a form of empowerment, reflecting a more top-down approach. In Italy, where the use of expression third sector prevails, as well as in Germany and the UK, in spite of very different traditions of social economy, the definition is based on two elements in particular: social aim and entrepreneurial orientation. A third element – social ownership – can also be added. Some partners also placed more emphasis on the 'entrepreneurial side of social enterprise, while others emphasised the need to interpret social enterprise initiatives on the basis of the factors behind interventions, such as addressing market failure or gaps in public provision of services. As a result, while

finding social enterprises based on their operational and structural set up might be problematic, it appears that there is a general consensus around the rationale for social enterprise and what it aims to achieve.

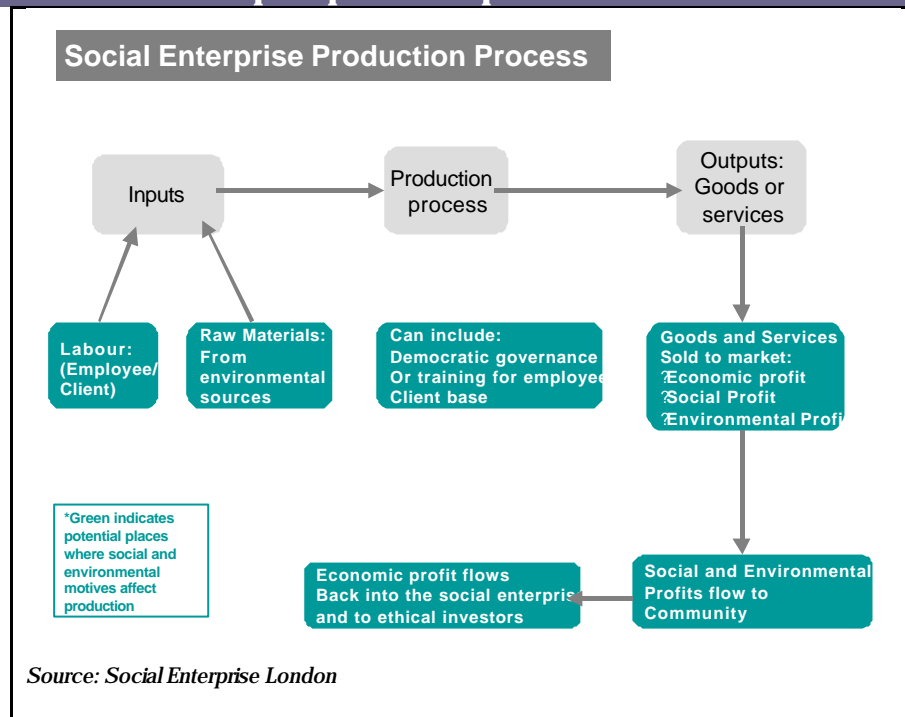
To exemplify social enterprise, the European Union put forward a definition based on the different forms 'social economy enterprises' can take, ranging from co-operatives, mutual societies to associations and foundations (CMAF definition). This is based on the registration of the business. In general, only associations with an economic nature are included. Table 1 exemplifies the characteristics of the four types of social enterprise.

<p>Co-operatives</p> <ul style="list-style-type: none"> ▪ Voluntary and open membership ▪ Equal voting rights based on majority ▪ Members contribute to the capital which is variable ▪ Autonomy and independence ▪ Main sectors of activity: agriculture, banking, manufacturing, retailing and services. 	<p>Mutual Societies</p> <ul style="list-style-type: none"> ▪ Voluntary and open membership ▪ Equal voting rights based on majority ▪ Members' fees – no capital contribution ▪ Autonomy and independence ▪ Main sectors of activity: medical, life and non-life insurance, guarantee schemes, home mortgages
<p>Associations/Voluntary Associations</p> <ul style="list-style-type: none"> ▪ Voluntary and open membership ▪ Equal voting rights based on majority ▪ Members' fees – no capital contribution ▪ Autonomy and independence ▪ Main sectors of activity: service providers, voluntary work, sports and advocacy/representative, health care, care for the elderly and children and social services. 	<p>Foundations</p> <ul style="list-style-type: none"> ▪ Run by appointed trustees ▪ Capital supplied through donations and gifts ▪ Main sectors of activity: financing and undertaking of research, supporting international, national and local projects, providing grants to relieve the need of individuals, funding voluntary work, health and elderly care.

Ref: DG Enterprise website: Social Economy Enterprises webpages.

While defining socially entrepreneurial activities in themselves poses many questions, for some of the partners, the definition of social enterprise appears to fit along a continuum ranging from the not-for-profit sector and voluntary sector on one side and Corporate Social Responsibility on the other. Social enterprise distinguishes itself from the voluntary sector by its trading activities and from not-for-profit organisations by the fact profits can be a driver for social enterprises, with the aim of reinvesting them towards the achievement of social objectives. On the other side of the spectrum, Corporate Social Responsibility relates to a 'post-production' form of social commitment rather than 'pre-production': it refers to businesses undertaking community programmes over and above their specific profit making purpose but in line with corporate objectives (e.g. local skills development). In social enterprises the commitment to support social objectives is at the foundation of the entrepreneurial activity, manifesting itself not just in the way the trading surpluses are reinvested, but also in the production inputs, processes and outputs. In order to understand this distinction, it is useful to look at the distinction between the social enterprise and 'normal' enterprise production process, as exemplified by Social Enterprise London in Table 2.

Table 2: The social enterprise production process



Social enterprise in the LNet cities: origins and current trends

In historical terms, the emergence of social enterprise in Europe has varied greatly from country to country, as testified by the wide array of experiences in our LNet partners:

- **Italy has a strong tradition of co-operatives, which has been backed by legislative recognition and support. The first co-operative dates back to 1854: from then, many were set up to provide a solution to growing unemployment and cost of living.**
- **In the UK, some observers have traced the origin of social enterprise as far back as the XII century, when many craft guilds were ethically oriented by supporting the 'just price', now echoed by fair trade.**
- **In Germany, the current structure of the Third Sector dates back to the post-second world war period, when the principles of subsidiarity, self-administration and communal economy became an important ingredient of economic development. Subsidiarity became synonym for any institutional alternative to the state as a provider of social welfare; self-administration, combined with the vision of a socialist organisation of the economy, gave birth to a set of institutions which influenced the notion of the German non-profit sector for decades. In East Germany, the post-war was characterised by a large number of state-owned enterprises offering social services and leisure activities. After the re-unification, church-related welfare associations such as Caritas were given public subsidies to set up infrastructure and service delivery in Eastern Germany, a process which has been dubbed as 'peaceful colonisation'.**
- **In the Czech Republic, many economists developed democratic and economically progressive positions. There is also a long tradition of co-operatives, which were expropriated after the Second World War. Following the**

fall of communism in 1990, new political conditions enabled democratic elections of co-operatives and co-operative syndicates.

A full comparative analysis of the social enterprise reality in the LNet cities and more widely is hampered by the gaping lack of data in most countries. The most comprehensive overview comes from Italy, where data is available for the different types of social enterprise legal forms (associations, foundations, social co-operatives). The predominant economic sectors are cultural and sport activities and social assistance. In Germany, the sector is primarily dominated by health and social services. In the UK, co-operatives and employee-owned businesses are the most common types of social enterprises, involved in managing workspace, delivering health and social care services, catering and entertainment, while some are operating in the green economy. In the Czech Republic, social enterprises can be found in the production and delivery of services. However, the data shows that the distinction between the voluntary sector and social enterprise is not clear cut. In The Netherlands, the social economy has mainly developed in the field of training and labour market support measures.

The legal statuses vary greatly from one country to the other. In most cases, social enterprises do not have a specific status, whereas in the UK and Italy, special recognition is now being given to such organisations, based on a stricter control of their commitment to social objectives. In Germany, social enterprise has no specific formal or legal status, given that each of the 16 Länder have legislative powers. In general terms though, the notion of public benefit relates to taxation law. The majority of third sector organisations in Germany are association and foundations and benefit from tax-relief. However, diminishing government subsidies for social work projects have meant that many organisations are now finding ways to collaborate with commercial ventures. In the Czech Republic, the legal status for social enterprises is closely linked to that of NGOs. Civil associations, foundations and funds, church-based organisations and congregations and public benefit corporations can be found. In the UK, there is no single model for social enterprises, and more importantly, these are not defined by their legal form. The majority of social enterprises in the UK are currently registered as companies limited by guarantee or as Industrial and Provident Societies. A new status, the Community Interest Company status, is being introduced this year to allow for greater flexibility and a greater commitment to the non-profit distributing status.

Greater flexibility and recognition appear to be at the order of the day, as social enterprise moves increasingly into the public policy sphere.

Social enterprise as a public policy tool

Across Europe, the modernisation of public services appears to have gone hand in hand with greater decentralisation of the welfare state. As public services strive to become more innovative and entrepreneurial, social enterprise has emerged as an alternative form of welfare, spotting unmet needs, generating commitment from staff and users, carrying out activities with drive and determination. As such, social enterprises can be considered as policy 'test beds', piloting innovative ways of tackling specific issues and pursuing social goals, providing an insightful laboratory for economic and social regeneration.

Social enterprise is more than just a new response to urban regeneration. Social enterprises can play a key role in raising public awareness, combating poverty, helping

people to become self employed, expanding new markets, creating jobs with a sense of 'values', contributing to anti-discrimination, creating and an enabling environment between profit and non-profit. In relation to stimulating business start ups, the sector is essential for achieving economic development goals through the provision of affordable accommodation and finance and support activities in the labour market, for example the operation of intermediate labour markets. It is crucial to keep in mind that social enterprises are not just relevant to deprived urban areas, and that these areas should be considered in relation to the wider city and urban region.

With governments' increasing interest in the potential of social enterprise to address such issues comes the need to ensure that policies and interventions are specifically tailored to the needs of the sector. It is also crucial to ensure that social enterprise are considered in their own right, and that their innovative and entrepreneurial side is not weighed down by added bureaucracy or performance targets. The growing policy and strategic interest in social enterprise has in fact come with great expectations of the sector. Partners agreed that it is crucial to think about the rationale for promoting social enterprise as a public policy instrument: it is not about a 'cheaper way' to achieve public policy aims, but a 'quality' way of doing so.

The social enterprise experience of the LNet partners highlights many interesting aspects of the relation between bottom up and top down approaches to social and economic change, and particularly the role of public policy in shaping or indeed catching up with developments in the field of social enterprise.

Case study: Social enterprise as a policy tool in London

Social enterprise makes an important contribution to achieving the goals of London's Economic Development Strategy. Social Enterprises are one part of a patchwork of place and people based strategies that can increase the numbers of start ups, growth and investment into deprived urban areas as well as remake local markets, improving access to finance, organizing intermediate labour markets and providing affordable business accommodation.

London is a highly competitive and highly productive city but also a high cost environment for business. Businesses in London, including social enterprises, face significant barriers, in particular access to finance and premises. These barriers are particularly serious in deprived urban areas where they might also be compounded by other factors such as discrimination.

The London Development Agency's work in this area involves a range of activities. The LDA supports the work of Social Enterprise London, a specialist Social Enterprise umbrella organisation which provides the co-ordination and leadership role in this field. Social Enterprise London convenes the Social Enterprise London Taskforce which brings together key stakeholders and support organizations to provide advice on the challenges faced by the sector as well as its potential. Noting the significant barriers social enterprises face in accessing finance, the LDA has invested in the Adventure Capital Fund scheme and the Agency's Access to finance programme includes £2m specifically for loans to social enterprises.

Three areas of work are being developed within the LDA currently and it would be interesting to compare these activities with those of other LNET partners:

- **Brokering Solutions in Public Service Delivery**

This project will develop a brokerage model to enable the voluntary and community sector and social enterprise organizations to engage with the Local Authority Public Service delivery agenda through capacity building and consortia development. An example of work in this area is engaging with local authorities to develop and refine procurement policy and procedures.

- **Sub-Regional Infrastructure for Specialist Social Enterprise Business Support**

The LDA is proposing a framework to coordinate social enterprise business support activity in the capital. There are currently a huge number of agencies and programmes offering specialist and generic business support. The LDA is proposing a sub-regional approach to co-ordination which is client focused and based on referrals to specialist business support advisors within each sub-region.

- **Asset Development Feasibility work**

Economic development and regeneration that is based on the skills and resources of local communities has a record of increased sustainability and impact. The LDA is considering how to develop this work further including linking in more closely with the range of available finance programmes and the Agency's property and premises work.

Social enterprise in deprived urban areas: measuring the impact

Crucial to determining the value of social enterprise as a tool for public policy is the assessment of the impact of social enterprises and their outputs. This is complicated by the fact that, by their nature, the added value of social enterprises lies in their commitment to social objectives.

Measuring impacts can be complex when an intervention has a blend of economic and social objectives. Work has been carried out on measuring the Social Returns on Investment, a concept which has been applied to non-profit organisations but which is also applicable to enterprises with social goals, such as social enterprises.

For social entrepreneurs managing enterprises with social goals, the creation of value occurs simultaneously in three domains: purely economic, socio-economic and social. The first is created when there are financial returns on investment. Social value is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals, communities or society as a whole. Social value may be intrinsic and hard to attribute a monetary value to: it could for instance be reflected in increased proximity to the labour market or greater self-confidence. Between these two forms of value lies the socio-economic value, which is constituted by a mix of measurable and non-measurable factors. The critical challenge here is comparing the level of investment with the value it creates.

In a recent article on social enterprise it is stated that the outputs of social enterprises are not restricted to firm level and extend to the local and macro economy. Social enterprises might positively affect local development in terms of employment, income growth, increases in tax revenue, enhanced provision of services, increases in local income retention, and demonstration and motivation effects. At macro-economic level, the outputs of social enterprises contribute to welfare reform, perform a re-distributive

function for resources between different societal groups, stimulate social innovations and generate employment opportunities (Dr Helen Haugh, 2005).

To allow the potential of social enterprises to be fully achieved, several barriers need to be tackled. Social enterprises often need specific support and finance measures to achieve their aims. Mainstream business support services might not always respond to their needs and financial instruments may not always be flexible enough. At the same time, some voluntary and community organisations which could potentially become viable social enterprises might be discouraged by the 'business jargon'. Enterprise agencies need to be more aware of the needs of voluntary and community organisations and social enterprises and the language they should use when talking to them.

LNet have identified four horizontal elements which impact enterprise promotion interventions and are determining factors to their success: business support, investment, skills and governance.

- Business support is about creating an enabling environment for the development of enterprise, facilitating business start-up, providing customised support, developing an enabling planning framework.
- Investment is about ensuring that enterprise initiatives can benefit from the appropriate measures and levels of financing, helping businesses to reach a sustainable state.
- Skills are fundamental to enhancing human capital and ensuring that an area can benefit fully from its human potential. While individual creativity and innovation are now often cited as engines of growth, levels of skills and expertise are crucial to sustaining growth and promoting entrepreneurial role models.
- Governance is about creating synergies between the different stakeholders, looking at the types of leadership at the local level, creating supportive partnerships and enhancing the role of intermediaries.

Social Enterprise - Barriers for growth and potential for development	
Business support	<ul style="list-style-type: none"> ▪ Developing a supportive framework for social enterprise - not one size fits all ▪ Capturing the role played by intermediaries ▪ Availability of affordable workspace
Investment	<ul style="list-style-type: none"> ▪ Moving away from public subsidies towards financial sustainability ▪ Supporting investment readiness ▪ Ensuring that appropriate funding is available and that providers understand the sector
Skills	<ul style="list-style-type: none"> ▪ Support and training for employees of social enterprises ▪ Enhancing policies supporting disadvantaged groups ▪ Promoting an entrepreneurial culture in education, from an early age
Governance	<ul style="list-style-type: none"> ▪ Stronger emphasis on social enterprise in economic and social development strategies ▪ Ensuring a successful transition from state-related structures to

	<p>the social economy</p> <ul style="list-style-type: none">▪ Greater recognition of social enterprises status and activities, establishing its value▪ More supportive public procurement and preference for public spending in sectors of social and general interest▪ Ensuring that public policy is supportive of social enterprise without imposing targets
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Concluding remarks: social enterprise as an engine for innovative change

While different countries have a different history and experience of social enterprise, making it difficult to draw comparisons and reach a common understanding, a wealth of examples of social enterprises can be found across Europe. The creation of social enterprises is seen as a way of tackling gaps in public service delivery and community and social needs and an entrepreneurial response to them. In this sense, social enterprises present a huge potential for local economic and social development in deprived urban areas. Social enterprises can generate positive spill-overs by enhancing the economic development supply chain, playing a facilitating role for other SMEs, for example through the provision of affordable accommodation, patient capital or access to local employers.

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