

Economic Research Institute of Northern Ireland

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6 May 2004

Social Economy Unit
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Dear Sir / Madam

DEVELOPING A SUCCESSFUL SOCIAL ECONOMY

Please find enclosed a response from the Economic Research Institute of Northern Ireland (ERINI) to the above named consultation.

Yours faithfully



VICTOR HEWITT
Director

Enc

A Response To:

**Economic
Research
Institute of
Northern Ireland**

**Department of Enterprise, Trade
and Investment**

***Developing A Successful
Social Economy***

***NI Government's Three-Year Strategic Plan
2004–07, Including Action Plan for 2004–05.
Consultation Document January 2004***

May 2004

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Introduction

The Economic Research Institute of Northern Ireland (ERINI) welcomes the opportunity to comment on the Consultation Document on the Social Economy in Northern Ireland, issued by the Department of Enterprise, Trade and Investment (DETI), which also includes a draft Three-Year Strategic Plan for 2004-07 and an Action Plan for 2004-05 (DETI, 2004).

Definition and Scope of the Social Economy

Although DETI's draft paper aims at "developing a successful social economy", it fails to provide a definition of the Social Economy as such; rather, it defines "social economy enterprises" as entities that "must have a social, community or ethical¹; purpose, and operate using a commercial business model, and have a legal form appropriate to a not-for-personal-profit status" (DETI, 2004, p. 9). The draft document distinguishes the following types of social economy enterprises:

- ✓ Community Business;
- ✓ Credit Unions and Industrial and Provident Societies;
- ✓ Housing Associations;
- ✓ Local Enterprise Agencies;
- ✓ Co-operatives;
- ✓ Employee-owned Businesses;
- ✓ Social Firms;
- ✓ Community Development Finance Institutions; and
- ✓ Social Entrepreneurs.

¹ Interestingly, the consultation document does not elaborate upon the Department's conception of the "ethical purpose" of an organisation and therefore begs the question of which ethical framework and moral values are referred to as well as why commercial or financial objectives would be "unethical".

However, conflating the social economy with the social economy enterprises defined as such, leaves out other aspects of the social economy sector that are worth considering for public policy purposes.

There are some cultural disparities regarding what the social economy entails between European countries, the United States and Latin American countries, and also within Europe and – as the draft document acknowledges² – within the UK. Concepts such as ‘social economy’, ‘non-profit sector’, ‘third sector’, ‘third system’, ‘solidary economy’, etc, are sometimes used as if they were synonyms to each other – which they are not. The distinctions among these terms are not merely of academic interest: what is considered or not as belonging to the social economy, ultimately reflects differing approaches to essential aspects of public policy and, accordingly, influences policy design and delivery. Therefore, it is important to discern what is behind each notion and devise the most appropriate definition of social economy and related policies considering the particularities of Northern Ireland’s economy and society. Annex A presents a brief description of these concepts and related policy frameworks. Furthermore, the UK Department of Trade and Industry (DTI), the Scottish Executive (SE) and the Welsh Assembly (WA) have provided alternative definitions to ‘social economy’ or ‘social enterprise’, which are described in Annex B.

The three aspects that the consultation paper requires for an organisation to be included among the social economy enterprises rule out several organisations that, for example, the WA includes as social enterprises, such as self-help groups and religious organisations. This is because the WA (as well as the DTI) centres on the non-distribution of profits (rather than non-profit making).

Therefore, the view of social economy, implicit in DETI’s consultation paper, does not cover the whole reality of these economic activities, as it leaves out the non-profit organisations that also make up the social economy. The social economy includes, not only *entities* that reinvest their profits in the community (rather than distribute them amongst their shareholders, owners or trustees) but also not-for-profit *activities*, carried out by for-profit firms to achieve socially responsible objectives (ie corporate

² DETI (2004, p. 15).

social responsibility [CSR] practices). On the other hand, the activities within the non-profit voluntary and community sector are not a broader set that includes social economy activities –as the draft paper states (see, for example, paragraph 6.3); instead, the former are part of the realm of the social economy. Finally, some public sector organisations, which present a mixed status since they are public bodies with charitable status, could also be considered as part of the social economy.

For that reason, the following definition of social economy is proposed:

the social economy is the set of economic activities primarily or exclusively undertaken by organisations to meet broader or other needs than the maximization and distribution of profits among their shareholders, owners or trustees.

In view of this, ERINI considers that, instead of treating DETI's strategy for the social economy and the Government's strategy for the voluntary and community sector (p.5) as separate but complementary, it would be preferable to have a single, overall strategy for the social economy (as defined in this response), which should distinguish between the different entities that make up the sector.

The definition introduced above is similar to the Cabinet Office's expression "charitable and wider not-for-profit sector" (CO, 2002). The following table summarises ERINI's view:

Table 1					
The Social Economy					
For-profit organisations		Non-profit organisations	Public Sector organisations		
For-profit business firms		For-profit social enterprises (no distribution of personal profits)	Non-profit voluntary and community organisations, faith-based organisations, self-help groups, etc.	Non-Departmental Public Bodies, Trusts, LEAs, etc (with charitable or not-for-profit status)	Other
For-profit activities	Not-for-profit activities				
Private Economy	Social Economy				

DETI defines social economy enterprises as entities presenting three characteristics:

- a social, community or ethical purpose;
- a commercial business model, and;
- a not-for-personal-profit legal status.

These correspond to the for-profit social enterprises and Local Enterprise Agencies (LEAs) in Table 1. The definition proposed in this response includes, as part of the social economy, the following organisations on top of those defined by DETI as “social economy enterprises”:

- entities that have a social, community or ethical purpose and a not-for-personal-profit legal status but do not operate using a commercial business model (i.e., some non-profit organisations);
- not-for-profit activities carried out by for-profit business firms.

The Distinctiveness of the Social Economy Sector

The consultation paper points out that what makes organisations operating within the social economy sector “unique and distinctive, is their commitment to addressing the double financial and social bottom line – i.e. generating profits to ensure sustainability of the business and the ability to achieve their social or ethical mission – and, in some cases, the triple bottom line through their focus on environmental impact” (p.11).

These bottom lines are part of the notion behind CSR. However, CSR activities are increasingly undertaken by for-profit, business firms: about 80% of FTSE-100 companies now provide information about their environmental performance, social impact, or both, and 61 per cent of small and medium sized enterprises are involved “a great deal” or “a fair amount” in the local community (DTI, 2001, p. 3). Similarly, over 200 for-profit companies in Northern Ireland are in membership of Business in the Community – a business movement that promotes CSR within firms³. Therefore, the social, ethical or environmental impacts cannot be the distinguishing traits of social economy enterprises as defined in the consultation paper⁴. In fact, they could be considered the distinctive aspects of social economy activities insofar as the definition of social economy advanced in this response is adopted.

When the term ‘third sector’ was introduced in academic and policy circles, many policy-makers and academics fell into the trap of seeing it as a residual sector of lesser importance. A similar danger is transparent in DETI’s draft paper where it explains that among other contributions to the NI economy, social economy enterprises “provide routes to mainstream employment” (p.11) as if jobs created by social economy enterprises as defined by DETI were not considered mainstream employment. In contrast, the definition proposed in this response identifies the social economy as an integral part of economic activity as a whole.

³ http://www.bitc.org.uk/regions/bitc_in_your_region/northern_ireland/index.html

⁴ The Action 2.8 of Objective 2 (p. 29) refers to the promotion of CSR. However, the draft document leaves CSR activities by business firms out of the social economy framework; the approach presented in this response brings them in.

Public Policy Implications

ERINI concurs with the list of contributions of the social economy to the NI economy (and society), as presented on paragraph 3.9 in the draft consultation paper.

The adoption of the view presented in this response would have an immediate impact on two of the three objectives and several actions defined in the Action Plan for 2004-05 (chapter 6).

The first objective is to “increase awareness of the sector and establish its value to the local economy”. While ERINI agrees with this general statement, it is clear from this commentary that sector boundaries should be redefined. Consequently, actions related to this objective should be refocused, and the fact that private, profit distributing business firms also engage in social economy activities should be taken into consideration. Also, policies that improve and develop interfaces between the public sector, the private business (profit distributing) firms that carry out social economic activities, the non-profit distributing enterprises and the non-profit organisations should be explored.

The second objective is to “develop the sector and increase its business strength”. ERINI prefers this objective to be reformulated, with emphasis placed upon the organisational strengths of the social economy actors rather than their business strengths. That this is preferable arises from the fact that not all the organisations within the social economy (as defined in this response) need to adopt a commercial business model, but all of them would benefit from improved organisational skills. This should not be understood as a denial of the importance of strengthening the business models of those social economy organisations that do have a commercial business model in place. Apart from the obvious case of for-profit firms engaged in CSR activities, there are many examples of not-for-profit organisations operating with sound business models. Otherwise, for example, the National Trust could not run 3 of Northern Ireland’s top 10 visitor attractions, directly employ over 400 people and present a total annual turnover exceeding £5 million (PriceWaterhouseCoopers, 2004).

Therefore, ERINI proposes this objective to be reformulated as: *“Develop the organisational strengths of the social economy organisations and increase their organisational and business strength as appropriate”*. This suggestion is intended to cater for the heterogeneity of the social economy sector – something that the objective included in the consultation paper seems to obliterate.

ERINI welcomes the proposal by the Joint Working Group on Finance to examine the sources of finance available to the social economy in Northern Ireland with a view to creating a best practice financial support framework for the sector (paragraph 6.13). However, ERINI also believes that there is a case for further research into the underlying dynamics of the social economy. For example, the internal incentive mechanisms in a not-for-profit distribution enterprise are generally quite different from the conventional company and it is not well understood how these relate to the efficient use of resources, particularly in an environment where subsidised financial support is available. It should also be noted that this is not only an issue for small-scale social enterprises but more generally for mutuals such as those emerging in the local energy sector.

The third objective is to “develop a supportive and enabling environment”. ERINI believes that there should be another priority action in addition to those identified under this objective: to consult on proposals for legislation to foster social economy activities by conventional business firms and their synergic interaction with other organisations within the social economy sector.

Monitoring and Evaluation

As discussed above, the broader view adopted in this commentary implies that, for example, entities with a social, community purpose and with a not-for-personal-profit legal status but which do not operate using a commercial business model are also part of the social economy. Furthermore, the activities undertaken by private business firms primarily or solely to contribute to the community should also be taken on board by the strategy.

In consequence, monitoring and evaluation efforts should acknowledge the different organisational ethos and objectives of the entities operating within the social economy. In particular, the evaluation tools need to assess the impacts of Government's action on three points:

- the degree of appropriateness of the organisational objectives and the organisational models in use by the entities;
- the degree of adequacy of the entities' objectives and resources; and
- the indirect contribution of policies and actions to Government's objectives through activities carried out by entities within the social economy.

ANNEX A: Definitions of Alternative Concepts Related to Social Economy

'Non-profit sector' is an expression more frequently used in the US rather than in Europe. It includes any entities that do not distribute profits, from universities to human rights organisations to day-care centres or environmental groups. Consequently, co-operatives and mutual organisations are excluded – here lies the main difference from the European approach.

The 'third sector' is presented as comprising all the entities that do not belong to either the public sector or the for-profit private sector. Again, co-operatives are not included, but charities are.

'Third system' is a concept coined by the European Commission in 1997 and includes the social economy enterprises considered in DETI's draft consultation paper, but which places its emphasis more upon the type of goods and services provided by the organisation, rather than its business model or legal status. In this respect, the key economic concept is that of "relational asset": a public good resulting from the relationship or interaction between the organisations, their clients and stakeholders in which value is dependant on the motivation and purposes involved.

'Solidary economy' is a concept coined in Latin America and refers to any economic activities centred on communitarian values and in which the production, distribution, consumption and accumulation activities are carried out for solidary purposes towards the community. Defined as such, the solidary economy is not a sector but an economic rationality based on reciprocity, democratic decision-making, participation, empowerment, social integration, etc, that could eventually pervade all economic activities.

'Social economy' refers to activities regulated by the stakeholder – rather than the shareholder- principle⁵. Social economy activities are carried out by the non-profit

⁵ A stakeholder is "any group or individual who can affect or is affected by the achievement of the organisation's objective" (Freeman, 1984). Examples of stakeholders include: employees, shareholders, investors, customers, suppliers, unions, political parties, trade associations, and so on. (Turnbull, 1997).

sector and, sometimes, also by for-profit firms: “corporate social responsibility” (CSR) activities, i.e. the introduction of social and environmental concerns in the business operations of private companies (EC, 2001).

ANNEX B: Definitions by the UK Department of Trade and Industry, the Scottish Executive and the Welsh Assembly

According to the Department of Trade and Industry a 'social enterprise' is "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners." (DTI, 2002, p. 13). Hence, social enterprises aim at self-sustainability and reinvestment while at the same time, the fulfilment of their social mission and aspirations.

The Scottish Executive distinguished between 'social enterprises' and 'social economy organisations' (SE, 2003) – bringing the latter closer to the definition of social economy presented above. The Scottish Executive explains: "social economy organisations have in common a sense of social purpose and functions which include economic activity. But in other respects they are as diverse as organisations in the public or private sectors. Some are fully-fledged businesses, entrepreneurially inspired and driven, and may have more in common with private sector businesses than with some other social economy organisations. At the other end of the scale, some organisations will regard themselves as being far removed from a business model and have no aspirations in that direction." (SE, 2003, p.13).

The Welsh Assembly (WA) defines a social enterprise as "a business with primarily social purposes. This means it is engaged in some form of trading, but it trades primarily to support a social purpose. Like any business, it aims to generate surpluses, but it seeks to reinvest those surpluses principally in the business or in the community, to enable it to deliver on its social objectives." (WAG, 2003, p. 5). The WA goes on to explain that "social economy is a wider concept and includes the many and varied organisations that work outside the private sector and the public sector. It includes voluntary organisations, community groups, self-help groups, community cooperatives and enterprises, religious organisations and other not for profit distribution organisations of benefit to communities and people" (p.5).

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