

Social Profits

To this day, I still don't know whether it was delicious serendipity or deliberate strategy that landed me on the A-list. Of the 60 possible tables in the banquet hall, I was wedged between bank vice-president on the left and national newspaper editor on the right. Pinch me, this is schmooze heaven.

It was the annual gathering of business, government and voluntary sector glitterati who come together same time, same place, each year to fête each other. They crown a few crème with an award that recognizes long-standing contribution to Canadian society. The event is the place to be – or rather be seen. It is also the place to talk.

I knew that this once-in-a-lifetime opportunity to have the ear of both banker and editor would never come again – at least not together on the same night. The reward for my efforts arrived soon enough. The editor called and asked whether I would like to write a commentary for the newspaper on a subject of my choosing. (I am still waiting to hear from the bank VP.)

Now there are many subjects of national significance that could have been of interest: widening disparities between have and have-nots in the midst of great wealth; the health and labour supply challenges of an aging society; or the growing economic, social and cultural role of city regions both at home and abroad – to name just a few possibilities.

But I decided, instead, to take this opportunity to write about some ideas that would be new for most readers. Hence the proposal for a piece on the social economy – a unique and burgeoning sector of the economy in which business enterprises and economic activity seek not only to generate revenue but also to advance social goals. There are hundreds of thousands of hybrid businesses, also known as social enterprises, which are taking their place on the world stage – and increasingly in stock market portfolios.

The editor was not impressed. He sent a thanks-but-no-thanks reply. His readers were not interested in the “socialist economy.”

The great irony is that social enterprises actually embody the principles of entrepreneurialism, just like other money-making ventures. They seek investment capital, produce goods and services, and generate revenue from their activity. Like conventional businesses, social enterprises operate in all sectors of the economy, including forestry, agriculture and fishing; energy production and recycling; land and housing development; and services such as eco-tourism, catering, computer graphics, music production and artistic design.

A primary difference from traditional businesses lies in the way in which social enterprises produce and distribute their goods and services. Social enterprises do not simply construct housing for all buyers, as in the traditional development business. Rather, they build accommodation specifically for low- and modest-income families.

Social enterprises may set up shop in neighbourhoods that have experienced decline or in rural regions that have lost their traditional resource base. The monetary boost is the spark that these areas often need to kick start their economic engine.

Sometimes a training component is built into the work operations so that employees can upgrade their skills at the outset and on an ongoing basis – good business practice that traditional companies should emulate in this world of rapidly changing knowledge and technology. The Shapotowak initiative in Fort McMurray is one example of a business enterprise that seeks to redress the problem of labour shortages while helping to develop the skills of Aboriginal workers.

The company 2000 Plus identified the need to get more of its young Aboriginal

employees involved in skilled trades. 2000 Plus is a contractor to Syncrude and is owned by the Miksew Cree First Nation of Fort Chipewyan, Alberta. It provides Syncrude with casual labour, grounds-keeping services and labour support for maintenance shut-downs. Shapotowak is a partnership among 2000 Plus, Keyano College, Syncrude Canada Ltd., Alberta Apprenticeship and Industry Training, the Athabasca Tribal Council and the Mikisew Cree First Nation. Syncrude allows up to 60 hours of release time per student for workshops that may occur during a scheduled shift. Tuition and other academic expenses are covered by 2000 PLUS and the Athabasca Tribal Council, with federal funding assistance.

Social enterprises are far from state-run socialist monopolies. Many are small, guerilla-type operations that represent the best in entrepreneurial practice. Find the market niche and go there – only in this case, the market niche includes an unmet social need to which it is responding. The product or service is not just consumption, it is contribution.

Social enterprises are the meeting point of two worlds that typically run on parallel tracks, and effectively fall into a gray zone that blends these black and white solitudes. They are sometimes referred to as ‘blended value’ organizations because that is precisely what they do.

Fast forward one year. Same time, same place, same fête. A handful of politicians, public servants, voluntary sector leaders and journalists are up for the celebrated awards. This time, one of the winners is the business writer of a (different) national newspaper. While I did not get to sit beside him all night, I did make a point of seeking him out to con-

gratulate him – and to slip in a small agenda item. As a regular reader, I noted that his columns were excellent but I was surprised by the fact that he had never written anything about the social economy. With that what-planet-are-you-from look, he replied: “I have no idea what you’re talking about.”

I suppose that I should not have been taken aback by his response. The field itself is currently grappling with what it is and who is in or not. Some cite, for instance, the Body Shop as a prime example of social entrepreneurship. The Body Shop has made a fortune by combining both product and social agenda. It has built an empire by selling good product and good ethics. Its tagline is MADE WITH PASSION and its ads market clear social values: oppose animal testing, support community trade, activate self-esteem, defend human rights and protect our planet. Others argue, however, that this type of company is not social enterprise *per se* but rather part of a closely related field, known as “corporate social responsibility.”

Ben and Jerry’s is another example frequently named as a social enterprise. It too sells great product and strong values. In fact, the company states explicitly that its objectives are based on three interrelated parts: product mission, economic mission and social mission.

We have a progressive, nonpartisan social mission that seeks to meet human needs and eliminate injustices in our local, national and international communities by integrating these concerns into our day-to-day business activities. Our focus is on children and families, the environment and sustainable agriculture on family farms.

Ben and Jerry’s purchases milk products from local Vermont dairy farmers. It

limits the pay spread between company managers and workers. It used to publish newsletters about “local giraffes” – citizens who stick out their necks to help others and to make a difference in their communities. From Chunky Monkey® to chunks of money, derived from both value and values.

Again, some would claim that Ben and Jerry are not social entrepreneurs. Rather, they are simply socially *conscious* entrepreneurs who use the power of the production process to foster significant social and economic change.

In recognition of the ongoing debate, the UK government issued a definition of social enterprise to bring some clarity to the field. It states that 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 holders.”

The key point is that the enterprise is intended primarily for social purpose and for the public good rather than primarily for private profit. According to this definition, neither the Body Shop nor Ben and Jerry’s would qualify as a social enterprise even though the owners themselves are among the most highly regarded social entrepreneurs on the planet.

The debate over definition no doubt will continue – most likely in the many new academic programs on social entrepreneurship being offered at the world’s top business schools. The Stanford Graduate School of Business, for example, has a Center for Social Innovation and Public Management Program, and an Executive Program in Social Entrepreneurship for those already in busi-

ness. The Harvard School of Business includes a Social Enterprise Initiative. The Skoll Centre for Social Entrepreneurship was launched in November 2003 at the Saïd Business School, University of Oxford. The Centre convenes the Skoll World Forum on Social Entrepreneurship, an annual conference that attracts an estimated 750 delegates from more than 35 countries.

Clearly, the business writer had not yet come across Net Impact, a web-based non-profit organization composed of business leaders who are committed to using the power of the market to improve the world. This international network counts more than 10,000 members in six continents, including 150 student and professional chapters, all of whom believe that business can both earn a profit and create positive social change.

But surely the business columnist was aware of the fact that the Nobel Peace Prize was awarded in 2006 to Muhammad Yunus and the Grameen Bank that he established in recognition of their efforts to tackle poverty. In June 2007, *BusinessWeek* named Muhammad Yunus one of “the greatest entrepreneurs of all time.”

The Grameen Bank’s loans of very small amounts have benefited millions, not only in Bangladesh but throughout the world. Micro-credit is based on the philosophy that lasting global peace cannot be achieved unless large population groups find ways to break out of poverty. Very small loans provide one such means – especially in societies where women, in particular, struggle against repressive social and economic conditions. Micro-loans have become an important approach for tackling poverty through the creation of business opportunities for the disenfranchised.

Here at home, the social economy generates near \$6 billion in revenue in Quebec alone with an estimated 160,000 employees in various types of social enterprise. There are thousands of blended economic and social ventures in other parts of the country that fall collectively under a tent known as ‘community economic development.’

In recognition of the importance of this work and its growing strength, a National Summit on Social Entrepreneurship was held in Toronto in December 2007. About 200 people involved in social entrepreneurship from across Canada were invited to celebrate their achievements and to confirm the vitality of this dynamic movement. The meeting also announced the selection of a social entrepreneur to attend the Social Entrepreneurship Summit being held just prior to the World Economic Forum in Davos, Switzerland.

A clear message that emerged from the Canadian Summit is the fact that the social economy sector not only is here to stay but also appears to be gaining strength. It is starting to take its place as a must-have component of traditional stock portfolios. Part of the expansion is being sparked by environmental concerns and the precarious health of the planet. Green business, in particular, has become growth business.

But social enterprises move beyond environmental concerns. They are also tapping into the awareness of a younger generation that is keen both to minimize its environmental footprint and to maximize its social footprint. Young people are increasingly conscious of their purchasing power, with the emphasis on power. They want their dollars to buy value – as in social value. They are shopping their conscience.

Many investors are also seeking opportunities not only to do well. They are also seeking opportunities to do good. They are looking for deeper meaning for their money and they find this unique combination in social enterprises, which lie at the interface of smart business and social intervention.

The fact that corporate giants like Bill Gates, Warren Buffett, Jeff Skoll and Jim Balsillie recently have channelled billions into major philanthropic investments has also helped raise awareness about the use of private capital for social purposes. Their actions set an important example – that global economic and social conditions can be profoundly altered through socially responsible investment.

While the world is finally waking up to this burgeoning sector of the economy, social enterprise is actually not new. In Canada, it has a rich heritage that extends to the social reform movements of the early 20th century. These movements took shape in response to major dislocations associated with the rise of industrial capitalism – economic and social challenges that bear more than a passing resemblance to those we face today.

One outstanding example is the Antigonish Movement that flourished in Atlantic Canada from the 1920s to the 1940s. Combining the principles and practices of economic cooperation with those of adult education, the Antigonish Movement embodied many of the core ideas that define the social economy today. It advanced a vision of a society committed to the common good and it considered economic opportunity for all a critical ingredient of a healthy society.

Indeed, the cooperative movement remains alive and well in many parts of the

country. Cooperative ownership is being recognized increasingly as a means of building financial assets and enabling homeownership, particularly for low-income households. In fact, there is an emerging literature and practice on producing assets to help foster economic self-sufficiency. A growing body of evidence is finding that these make a significant difference to well-being, with a positive correlation between assets and increases to income over the long term. Ownership also confers a sense of choice and security. It helps create a personal safety net that can be used in the event of emergency or as leverage for raising funds for other assets, such as work tools and equipment, business or residence.

Despite its potential for positive economic and social impact, social enterprises still struggle to be recognized in Canada. Outside of Quebec, the social economy typically is treated as a set of disparate projects rather than a viable sector worth significant financial support by government and private investors.

Fortunately, some provinces have taken small but important steps in support of the sector. In 2001 the Government of Manitoba, for example, approved a community economic development framework and ‘lens’ to assist all departments align their policies and programs in support of local employment, local ownership and control of decision-making, and reinvestment of profits back into communities.

But these points of light are more the exception than the rule. Social enterprises typically get trapped by Canada’s antiquated charity laws which generally treat them as charitable organizations. Rather than enabling their activity, the federal government in

particular creates all sizes and shapes of hoops covered in ribbons of red tape.

Moreover, Ottawa provides only limited financial capital for these ventures. The former Liberal government had introduced a major Social Economy Initiative to bolster the capacity of the sector. Unfortunately, this initiative was cast aside when Canada's new government took the reins.

While the federal government did announce in January 2008 a \$1 billion relief package for communities being hit hard by the slowing economy and high unemployment, it is not clear how the funds are being spent by provinces. It is also unclear whether the investment is respecting the principles embodied by social enterprise – the use of profits for community well-being and not private profit.

All this to say – the loss of a focused and values-driven Social Economy Initiative was a regrettable setback for the sector and for the country. The move put Canada well behind our closest trading partners and competitors. Both the US and the UK have brought in measures in the form of tax credits and direct funds to promote investment in social enterprise and in low-income communities.

The US basically recognizes this economic sphere as a 'new market' and offers a tax credit by that very name. In 2000, the US government introduced the New Market Tax Credit as part of a broader set of measures within its Community Renewal Tax Relief Act. The New Market Tax Credit was intended to provide up to \$15 billion worth of tax credits for community investment between 2002 and 2007.

Under the plan, investors received for the first three years an annual tax credit worth 5 percent of their investment in community enterprise. For the next four years, the tax credit increased to 6 percent of investment.

In order to be eligible for the credit, investors had to direct their funds toward an accredited enterprise known as a Community Development Entity. To gain accreditation, the entity is certified by the Community Development Financial Institution Fund administered by the US Treasury Department. The Fund oversees these financial institutions to help ensure accountability and the quality of business practice.

The UK measures on community enterprise similarly were driven by the national interest in promoting investment in economically disadvantaged regions of the country. The Chancellor of the Exchequer appointed a lean high-profile Social Investment Task Force to provide advice on how best to grow this new market. In its October 2000, the Task Force made five practicable recommendations inspired by the US measures, including a community investment tax relief credit and community development venture funds.

Bridges Ventures is one example of the success of that UK process. Founded in May 2002 by three partners, Bridges Ventures launched its first community development venture fund, known as Bridges CDV Fund I. The ten-year Fund is worth £40m, comprising £20m of private sector investment primarily from banks and pension funds, and £20m in matching investment from the UK Department of Trade and Industry.

In 2007 Bridges Ventures launched a second Bridges CDV Fund II, worth £75m raised entirely from private sector investors. While underinvested inner-city areas of the UK are its primary target, the Fund II also supports businesses located outside those areas but in such sectors as health care, education and the environment that bring strong social benefits.

The results are impressive. Bridges companies have spent more than £14 million per year in Bridges target neighbourhoods. Eighty percent of investment to date has gone to companies located in the most deprived 10 percent of wards in the country, with 39 percent of investment in the most deprived 5 percent of wards. An estimated 830 jobs have been created or sustained, providing employment for vulnerable neighbourhoods and for more than 200 individuals who had been out of work. Bridges Ventures has succeeded in leveraging £4 for every £1 invested into companies in the target areas.

With a focus on the unmet social needs of certain populations and designated neighbourhoods, it is not surprising that social enterprises have become a core component of a set of initiatives emerging in Canada, known collectively as the “communities agenda” [Torjman 2007].

The communities agenda refers to the new way in which neighbourhoods and larger regions are pooling their efforts to take on tough local issues. They are inviting business, government and voluntary sector leaders to common tables to help tackle complex problems like homelessness, chronic poverty and unemployment. Communities increasingly are seeking long-term comprehensive solutions and novel approaches that encourage collaboration among sectors that

typically have not worked together in the past. Social enterprises figure prominently among their solutions – by generating employment opportunities, creating affordable housing options and building personal financial assets.

If I am ever again sandwiched at a banquet table between money man and media man, I might try talking this time about the communities agenda. I may even ask the media man if he would consider publishing a short commentary on the subject. Perhaps he will reply: “Sorry, our readers are not interested in the communist agenda. But it would be great if you could write something about the social economy.”

Sherri Torjman

References

- Torjman, S. (2007). *Shared Space: The Communities Agenda*. Ottawa: Caledon Institute of Social Policy.
- Torjman, S. and B. Young. (2007). *Money and Meaning: Blended Value in Community Enterprise*. Ottawa: Caledon Institute of Social Policy, February.

Copyright © 2008 by
Caledon Institute of Social Policy

401-1390 Prince of Wales Drive
Ottawa, ON K2C 3N6
CANADA

Phone: (613) 729-3340
Fax: (613) 729-3896
E-mail: caledon@caledoninst.org
Website: www.caledoninst.org