



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

BCCM Policy Insights

**Towards a Better Understanding of Social Enterprise and Co-operatives:
Implications for Public Policy**

Morris Altman
Professor of Behavioural & Institutional Economics
University of Newcastle, Australia



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1. Executive Summary

This paper discusses the concept and definitions of social enterprise and their relationship for co-operative and mutual organizations. Better understanding how co-operatives and mutuals, member-owned organisations, fit into the world of social enterprise is critically important as governments world-wide, and increasingly in Australia, are preferencing social enterprises as suppliers and as organisations deserving of financial support. As many governments are moving out of directly providing social services, social enterprises are seen as a key alternative supplier of social services.

Defining and understanding what a social enterprise is, therefore, is of critical importance to co-operatives and mutuals as well as to government decision-makers. Consumers also need to better understand social enterprises since so many exhibit a strong preference to purchase from social enterprises as this designation tends to convey the impression of an organisation that is a 'Good Samaritan' and worthy of one's support.

We find that there are an overlapping set of definitions of social enterprise, some that are rather narrow and others much broader in scope. However, a basic definition focuses on three points:

- Social enterprise is a business that earns its own keep as opposed to being a charity
- Social enterprise must have a social purpose (but this is broadly defined). Social Traders in Australia, for example, refer to, "a public or community cause, be it social, environmental, cultural or economic," where the social purpose refers to the type of target population
- Social enterprise must devote a large share of their profit to the social purpose they define

This basic broad definition dominates the Australian landscape.

1. Executive Summary (continued)

Narrower definitions apply in the United Kingdom, for example, particularly in the concept and practice of social enterprise in the co-operative and mutual movement. These narrower definitions include the characteristics listed above, but also include:

- Independence from the state (therefore autonomous)
- There must be majority control “in the interest of the social mission” (this could imply, controlled by those whose interest or social purpose the social enterprise serves)
- The social enterprise is accountable and transparent

Given these various sets of definitions social enterprises can be investor-owned. But it should be noted that the last three principles are most consistent with co-operative and mutual principles as, for example, articulated by the International Co-operative Alliance.

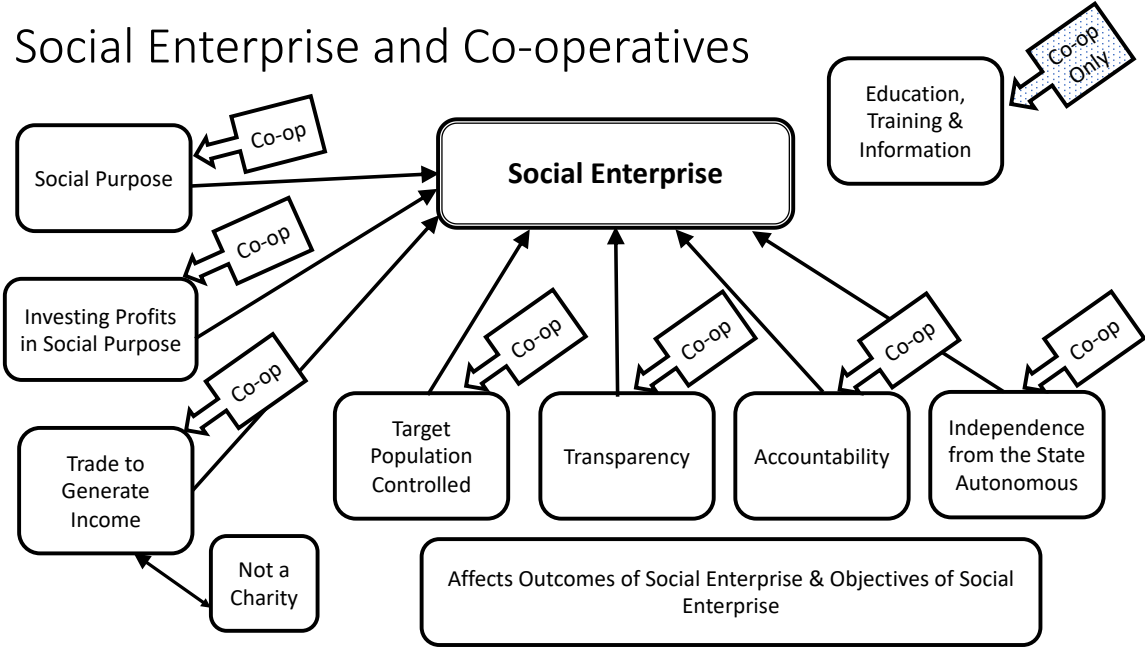
If one defines a social enterprise as one that serves the needs of a disadvantaged community, then co-operatives and mutuals cannot be excluded from the social enterprise designation. But unlike investor-owned social enterprises, all co-operatives and mutuals serve their members’ (the target population) needs. This is as opposed to the needs of investors. This could involve improving the wellbeing of consumers, of farmers, of depositors in banks (mutuals), of workers, for example, beyond what it might otherwise be. Members determine the allocation of surplus to a social purpose as opposed to the investor-owned firm or social enterprise where investors (not the target population) determine this allocation. Additionally, co-operatives and mutuals must be transparent and accountable to members, another point of differentiation from the investor-owned firm and social enterprise. This raises the question of under what conditions should investor-owned firms with a “social purpose” be designated as a social enterprise.

The various definitions of social enterprise do not entertain the importance of the quality of what is produced, the process by which output is produced, and how profits or surplus is calculated and the extent of equity within the social enterprise. Just because a firm is designated as a social enterprise does not mean that if it provides elderly care, for example, this is at an acceptable level of quality and the process by which care is produced is fair and equitable, and both fair and efficient. Nor does the social enterprise designation address how income is distributed amongst the producers of a social output such as elderly care. These issues are critically important to the target population, their families, taxpayers, and the government.

Co-operatives and mutuals that adhere to co-operative governance principles have a better chance of producing quality output fairly, equitably, and efficiently, given that they are member controlled, i.e., controlled by the target population. This being said, it would be fundamentally important for any organisation that desires a social enterprise designation to open the door of their black box to public scrutiny to determine if their social purpose is achieved whilst maintaining acceptable high standards of quality, fairness, equity, and efficiency.

Social Enterprise and Co-operatives

Social Enterprise and Co-operatives



2. Introduction

The first impression most people get when they hear the term social enterprise is something that is warm and fussy, a do-gooder enterprise, out to serve a higher purpose, a social purpose. Social enterprise is, itself, a fuzzy concept, often entwined with the notion of 'not-for-profit', social purpose, 'helping the disadvantaged', and with the idea that profits are being re-invested in the variously defined mission of the social enterprise which somehow relates to a social purpose. Thus it is not always considered to be an efficient form of enterprise; but it is increasingly regarded and being promoted as a real business that is driven by a higher social purpose.¹

Co-operatives and mutuals are often not considered to be social enterprises, although one of the points of origin of the term social enterprise relates to the development of co-operatives. These member-owned organisations are typically considered to be some sort of enterprise structure that differ from the profit goal-oriented investor-owned firm. Yet, mention of co-operatives typically do not signal a "warm and fussy, do-gooder enterprise, out to serve a higher purpose, a social purpose." Often co-operatives are viewed, without much evidence, as sub-optimal and inefficient enterprises compared to the investor-owned firm. This would certainly be the case in Australia. In Europe and Canada, however, there is much broader discussion of the relationship between social enterprises and co-operatives and mutuals. But still, the concept of social enterprise is largely considered to be a differentiated organisation that is consistent with being investor-owned.

On the origins of social enterprise

The pioneers of social enterprise can be traced as far back as the 1840s, in Rochdale, where a workers' co-operative was set up to provide high-quality affordable food in response to factory conditions that were considered to be exploitative.

In the UK, a resurgence of social enterprise started in the mid 1990s with the coming together of different organisations, including co-operatives, community enterprises, enterprising charities and other forms of social business, all united by the prospect of using business to create social change.

Source: <https://www.socialenterprise.org.uk/faqs/what-is-the-history-of-social-enterprise>

¹ For a list of co-operative social enterprises in Australia, see: <https://www.coopdevelopment.org.au/cselinks.html>.

What a social enterprise is and what should it be, what the best definition for a social enterprise is, and what the interface between social enterprise and co-operatives and mutuals looks like, are critically important questions from a practical, social, and public policy perspective. Especially now, since governments are looking to and, in some instances, are designating that a percentage of government purchases be made from social enterprises. Some governments are also targeting social enterprises for financial support. Moreover, many consumers wish to purchase from social enterprises as opposed to other firms—it makes them feel better about themselves, it gives them a ‘warm glow.’² Social enterprises can be viewed as Good Samaritans. Customers might even pay a higher price for products produced by social enterprises, given the satisfaction they derive from such purchases. Being labelled as a social enterprise can translate into considerable revenue for firms that carry such a designation.

How co-operatives and mutuals fit into the social enterprise space will have considerable financial implications for them. Moreover, clarity of definitions and related labels are important to government and consumers. It is critically important that governments and consumers obtain clarity as to what they think they are investing in and spending money on is actually the real deal.

This is all coming to fore in Australia with Social Traders³ Australia (which is a private organisation), launching its own certification of social enterprise (see Appendix). Will they be certifying actual social enterprises? This all depends on the definitions used, the specificity of the definitions, the extent to which these definitions actually incorporate all social enterprises or exclude some, or include enterprises that aren’t social enterprises at all.

² The concept of warm glow has become subject to considerable attention from behavioural economists who argue that individuals are motivated not only by prices and income, but also by non-material considerations (Andreoni 1990; see also, Altman 2012).

³ “Social Traders was established in 2008 as an independent not for profit company limited by guarantee, jointly funded by the Dara Foundation and the Victorian State Government through the Community Support Fund. Based in Melbourne, we work nationally. Social Traders has no religious or political affiliations.” Source: <https://www.socialtraders.com.au/about-us/about-social-traders/>. “Founded in 2003, DARA is an independent non-profit organisation committed to improving the quality and effectiveness of humanitarian action for vulnerable populations affected by armed conflict and natural disasters.” Source: <https://daraint.org/about-us/>.

3. Some Definitional Issues

There are a variety of definitions (often vague) of social enterprise, with some overlap amongst them. Social Traders, **Australia**, refer to social enterprises as enterprises that, “are driven by a public or community cause, be it social, environmental, cultural or economic...Derive most of their income from trade, not donations or grants...Use the majority (at least 50%) of their profits to work towards their social mission.”

According to Social Enterprise **UK**, social enterprises should “have a clear social and/or environmental mission...Generate the majority of their income through trade...Reinvest the majority of their profits...Be autonomous of state...Be majority controlled in the interests of the social mission...Be accountable and transparent.”

In **Canada**, British Columbia’s Centre for Social Enterprise refers to enterprises with a commitment to, “...achieve social, cultural, community economic and/or environmental outcomes and, to earn revenue.” (see Appendix for all three).

There is an apparent consensus that a social enterprise must:

- have a social purpose
- must trade to earn revenue
- must invest a certain percent of profits in their social mission related to their social purpose

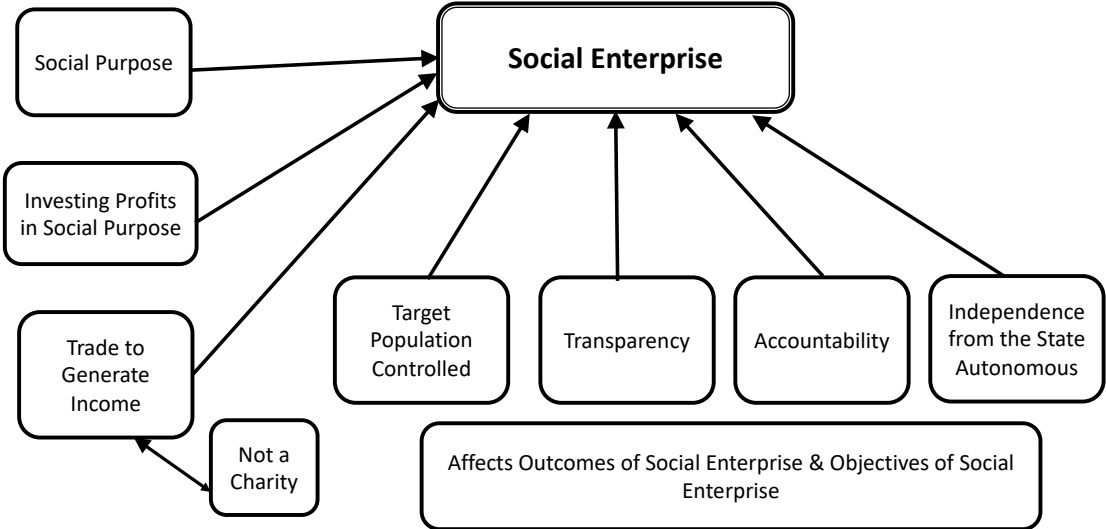
But, in the United Kingdom the social enterprise should also be:

- independent of the state (therefore autonomous)
- majority controlled “in the interest of the social mission” (this could imply, controlled by those whose interest or social purpose the social enterprise serves)
- accountable and transparent

The Australian and Canadian definitions of social enterprise are less restrictive and they might, therefore, be viewed as less robust than the UK definitions from a governance perspective (see Diagram One). Whether or not a social enterprise achieves its social purpose must ultimately be monitored and the social enterprise must be taken to task if it does not achieve its social purpose. This is more difficult when a social enterprise is not autonomous, is not controlled by its target population, and if its workings are not transparent.

Diagram One

What is a Social Enterprise

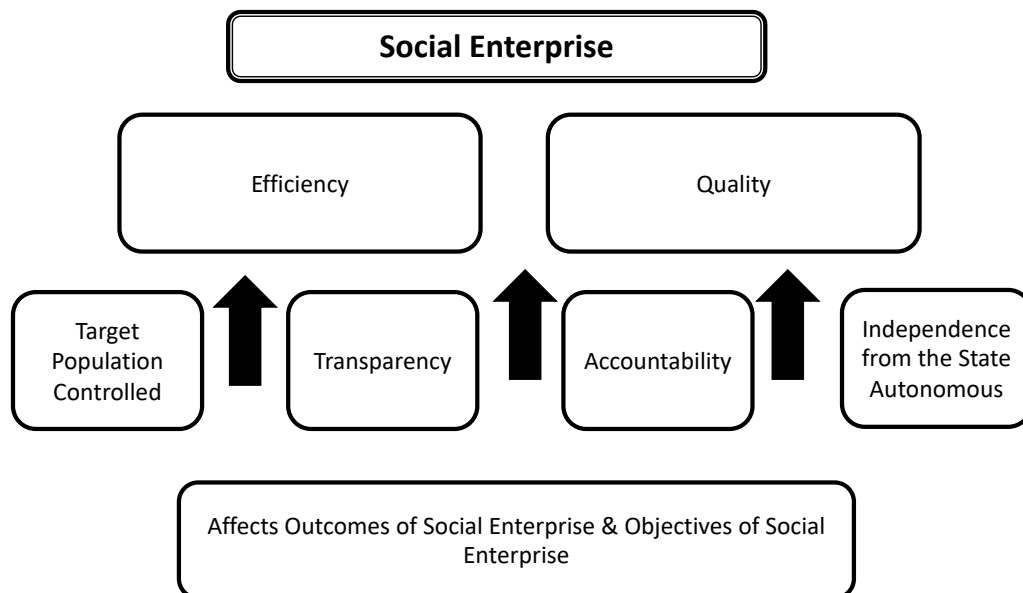


The more all-encompassing set of definitions can also have implications for the practical definition of social purpose as well as the overall **efficiency** of the social enterprise, the **quality** of the output of the social enterprise, and the quality the treatment of its employees and volunteers (discussed in more detail below) (see Diagram Two). Quality is critical when one considers social purposes such as elder care, housing, child care, financial services to a disadvantaged population, and services to and employment of physically challenged individuals, and services to and employment of mentally challenged individuals.

3. Some Definitional Issues (continued)

A broader question relates to who determines what a social purpose is: is it a government agency, a non-member controlled NGO, the investor-owners of a social enterprise, or is it a particular community? Also, if a social purpose relates to the disbursement of a percentage of profits to help fulfil a social purpose, who determines the allocation of this disbursement? In the UK definition of social enterprise, this is important. In the Australian narrative it could be determined by those who own the social enterprise. Therefore, the disbursement of surplus is determined by the preferences of the owners, not by those whose interest the social enterprise should be serving. This being said, there is a consensus that a **necessary condition** for being a social enterprise is that this enterprise must have a social purpose.

Social Enterprise & Outcomes



4. The Quality of Output and the Process of Production

Overall, however, there is no clear specification on how the social purpose, and more specifically, the output of the social enterprise is produced. The black box of the social enterprise goes largely uninterrogated, although the UK definitions facilitate some insight and control by specifying the importance of member (target population) control, transparency, accountability, and being autonomous (see Diagram Two).

As mentioned above, output can be produced by different means and not all of these means are in the best interest of the target population of the social enterprise. The process by which the social enterprise's output is produced, its social purpose is achieved, should be of critical importance and this relates to the quality of the social enterprise's output. And, it could and, perhaps, should be, of critical importance to those contemplating purchasing the social enterprise's output, such as government (through preferential procurement policy) or by consumers searching for goods and services that embody a social purpose.

Take the example of elder care. The social purpose of the social enterprise is to provide care for the elderly. For some the designation of social enterprise signals quality care. But this need not be the case. An investor-owned elderly care facility could be focused on providing a low-cost service that provides a poor quality output to the elderly. Employees might also receive poor benefits and poor overall working conditions. The income to the investor might be quite high. All of this would be consistent with this social enterprise having a social purpose, being a non-profit organisation, and trading to earn its income. The same scenario could be specified for a social enterprise providing employment to a disadvantaged segment of the population. Here employees might be paid poorly and working conditions might be poor overall. One might have a micro-finance corporation whose goal is to support a disadvantaged segment of the population. But the target population might be charged a rate of interest that is well above what is required even after controlling for risk. There might be little monitoring over the expenditure of the recipients of the loans (consumer goods as opposed to the loan application specification of investing in a business). This social enterprise might be causing harm to the target population. Being a micro-finance corporation that is a social enterprise is no guarantee of delivering on the social purpose—helping the designated population. But the designation of social enterprise might signal otherwise. In all cases it might be possible for the quality of output and process of production to be higher and fairer.

Being a social enterprise provides no guarantee of actually achieving the social purpose, especially in terms of improving the wellbeing of the target population. But the UK definition of social enterprise provides important controls to the quality of output and the fairness embedded in the process of production. Member control fundamentally introduces a form of self-regulation into the black box of the social enterprise (Altman 2015b). Members would typically not allow their elderly parents to be poorly treated, member-employees would not allow themselves to be poorly treated, consumer-members of a micro-finance corporation would not charge themselves excess interest rates nor would they allow for high risk loans that would not benefit the member-owners in the long run.

5. Co-operative Enterprises and Social Enterprises

Given the importance of definitions (and their implementation in practice) it is critical to understand the co-operative and mutual governing principles that relate to the overarching mission of co-operatives and mutuals. The peak international organisation of co-operatives and mutuals, the International Co-operative Alliance (ICA) stipulates that:

Cooperatives are **people-centred enterprises** owned, controlled and run by and for their members to realise their common economic, social, and cultural needs and aspirations. . . . As businesses **driven by values**, not just profit, cooperatives share internationally agreed principles and act together to build a better world through cooperation. Putting fairness, equality and social justice at the heart of the enterprise, cooperatives around the world are allowing people to work together to create **sustainable enterprises** that generate long-term jobs and prosperity.”

Source: <https://ica.coop/en/cooperatives/what-is-a-cooperative>.

There is clearly a social purpose embedded in the co-operative definition:

- **Values** are more important than profits
- But co-operatives are **businesses**
- Co-operatives are businesses driven by **fairness, equality, and social justice**
- There is an overriding importance attributable to **sustainable** business, **long-run jobs and prosperity**.

This social purpose is driven by high-level principles developed over the past two hundred-odd years. They underpin what can be argued are the necessary conditions for co-operative organisations to operate efficiently and effectively in a competitive environment as well as for improving the wellbeing of members and their community. These principles go well beyond the social enterprise focus on social purpose, trading, and re-investment in the social enterprise’s social purpose. They overlap with the UK social enterprise principles. And, most significantly, they meet the necessary condition of social purpose to be a social enterprise. And, additionally as required of a social enterprise, co-operatives and mutuals trade to earn their revenue—they are not charities.

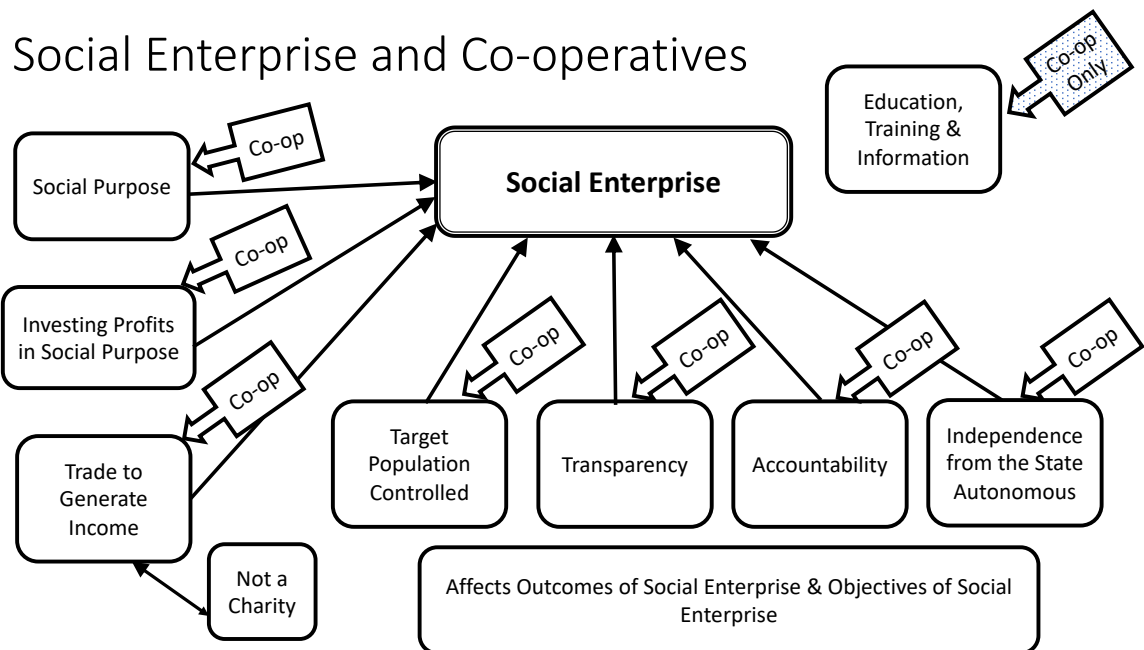
These are the International Co-operative Alliance’s core principles that are meant to drive the behaviour of co-operatives and mutuals (<http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>):

- **Voluntary and Open Membership**
- **Democratic Member Control**, the co-op is controlled by their members and members must be active in the decision-making process with full access to information
- **Member Economic Participation**, ideally all members contribute equitably and democratically control their co-op’s capital
- **Autonomy and Independence**, co-operatives and mutuals need to be autonomous and controlled by members

- **Education, Training and Information**, which are critical to effective democratic decision-making that can also culminate in economically efficient and competitive outcomes for the co-operative
- **Co-operation among Co-operatives**, is critical since such networking facilitates co-operatives gaining scale and bargaining power as well as the knowledge base to compete with larger corporations, whilst maintaining their independence as individual co-operatives
- **Concern for Community**, relates to the contributions of co-operatives to the communities of which they are part of

From general first principles co-operatives fulfil the general necessary and sufficient conditions for being a social enterprise. But, as already mentioned, they go beyond these basic first principles, being more consistent with the UK first principles of being a social enterprise. This is clear from Diagram Three. Also, from Diagram Two and Three, co-operative governing principles are more consistent with efficiency, quality, and equity outcomes of the social enterprise. More specifically, these additional principles speak to assuring that co-operatives deliver on their social purpose through member control, transparency, and accountability. They speak to process and the quality of output.

Diagram Three



6. A Basic Comparison

It is useful to compare the generic co-operative with the investor-owned social enterprise. This comparison is presented in Diagram Four. These two organisational forms look quite similar. But there is a key difference in that with the co-operative and the mutual, there is member control in the decision-making process, inclusive of defining the co-op's social purpose, the determination of the distribution of benefits, the quality of output, and the extent of the dispersion of the surplus. When the above is critically important, as they have serious implications for social outcomes and some would say social justice outcomes, one can conclude that the co-operative and the mutual is a superior vehicle to deliver on a social purpose. This implication for who might or should deliver on a social purpose becomes more striking when one considers disadvantaged members of society.

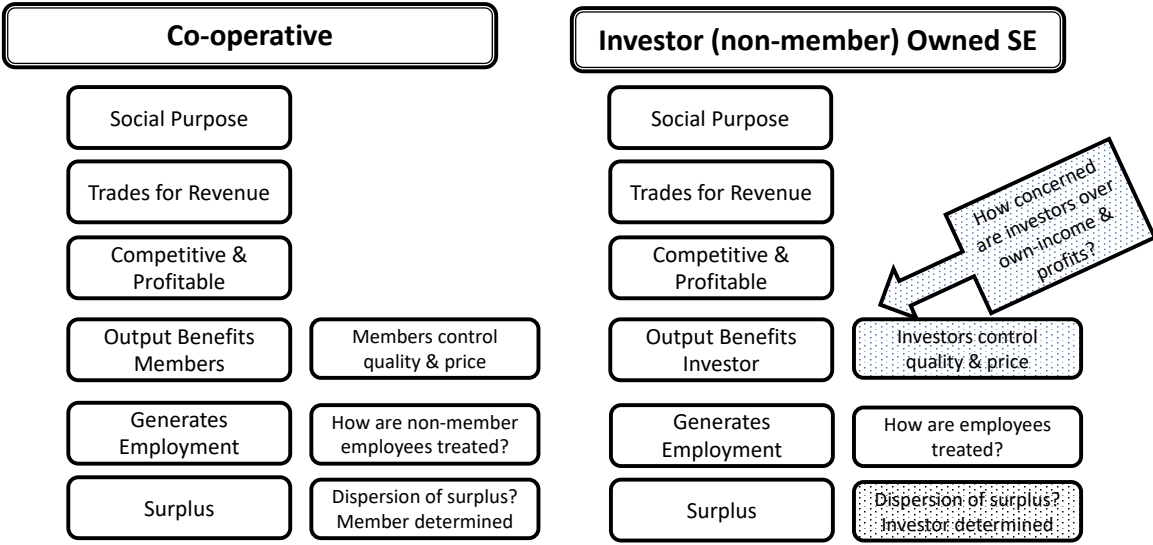
Let's take a hypothetical example of the provision of elder care to be provided by a social enterprise. The state is not providing this care, but it will contract a social enterprise to provide this care and partially cover costs. Additional revenue flows from charges to the consumers of elder care and/or their families. Therefore, the social enterprise providing elder care is trading for revenue and is not a charity. The social purpose of this social enterprise is to care for the elderly—output is elder care. The investor-owned social enterprise is not directly responsible to their clients. Its owners might be most interested in making money, whilst remaining competitive, competitive enough to win government contracts and/or attracting customers. 'Making money' need not translate into maximising profits, and, indeed, it cannot do so as a social enterprise. But it can relate to increasing the income of the investors-owners. This increase in investor-owner income can arise through reducing the quality of product, reducing employee benefits, and/or increasing price (see below, **Accounting for Profits**). This is all consistent with being a social enterprise—having a social purpose, not maximising profit, and trading to earn the majority of revenue. Also, investor-owners determine the extent to which surplus is invested in the social purpose (elder care or elsewhere).

Elder care can also be provided by a co-operative. Here the families of the elderly, the elderly, and the employees and management of the elder care facility could all be members. The members determine the price-point and the level of quality of output as well the level of employee benefits. The members regulate the elder care social enterprise in a co-operative, not the investors. 'Making money' would not be the objective of the member owners, it is rather the provision of quality service at a reasonable price, whilst remaining competitive on the market (being able to trade and not being a charity). Any higher costs incurred by providing a higher quality product or paying higher benefits to staff can be offset by increasing productivity through smarter and harder work inputs into the co-operative production process (Altman 2012, 2014, 2015a). This would be a function of member ownership of this social enterprise, wherein member-owners are incentivised (because they are members) to be productive. This is a co-operative productivity advantage that can't be easily replicated in an investor-owned social enterprise. The distribution of surplus is determined here by members of the elder care co-operative as opposed to by investors.

In terms of being a social enterprise both of the above would satisfy the broad definitions of social enterprise. But it is only the co-operative that is guaranteed to generate outcomes consistent with member preferences. This is because a co-operative is member not investor controlled. Or, to put it another way, in a co-operative the investor is the member and all members are investors.

Diagram Four

The Co-operative & Investor Owned Social Enterprise



7. Are All Co-operatives Social Enterprises?

Another comparison that can be made is between a generic co-operative or mutual and an investor-owned firm. A regular investor-owned firm is devoid of a social purpose (manufacturing cars, car parts, milk, or cheese); it is not a social enterprise. But a co-operative, by definition has a social purpose build into its corpus, into the principles of what it is to be a co-operative. It's another important question as to whether or not a specific co-operative abides by co-operative principles.

A first principle of the co-operative is to benefit its members. Herein lies an important **social purpose** in so far as the co-operative serves to **improve the wellbeing** of its members: workers, consumers, or suppliers. This **equity principle** is not a core principle of the investor-owned firm. Moreover, a co-operative is supposed to devote a portion of its surplus (profits) towards its community, towards a social good. The determination of this community contribution is supposed to be member derived. An investor-owned firm need not contribute to the social good, towards community, but it might if this is regarded as consistent with maximising profits or, relatedly, maximising the share value of its investors. And where and when this investment is made in the social good, or in the social purpose, these are, of course, investor determined, based on the preferences of investors.

But the equity principle may not be sufficient for decision-makers who are spending government funds on social enterprises providing them with special consideration. However, a generic co-operative might be **located in a disadvantaged region or disadvantaged part of the city**, providing jobs and a higher incomes and improved services at affordable prices to its co-operative members. Here, the generic co-operative serves a clear social purpose. Government support in terms of purchasing and supporting such a co-operative would facilitate employment growth and even economic development amongst a disadvantaged population. Investor-owned firms might not even locate in such areas as it may be too risky or not profitable enough.

A generic co-operative serves a broader social purpose when it facilitates improving the wellbeing of a disadvantaged population. Even though it is generic, such a co-operative, given its population and membership base, would be a social enterprise as opposed to a dairy co-operative, for example. But the latter still serves to improve the socio-economic wellbeing of its members and their communities, a significant structural or inherent difference between a generic co-operative and a generic investor-owned firm.

Are all co-operatives social enterprises? This is a definitional question given the principles of co-operatives. However, co-operatives that relate to and benefit the disadvantaged would be a social enterprise given the social purpose and benefits generated by such co-operatives. Also, co-operatives that service specific communities such as the elderly, the physically challenged, the intellectually challenged, children (child care), and, contribute to environmental improvement, and to the provision of housing to the disadvantaged and lower cost electricity to lower and middle income households and to SMEs, for example, should also be designated as social enterprises.

When co-operatives and mutuals adhere to their basic principles, they deliver on quality and fairness. This dimension of the social enterprise might be critical to governments wanting to support social enterprises. The social enterprise designation is vitally important when it is a condition for government financial support through preferential procurement policy or subsidies. It is, therefore, vital to determine what a social enterprise is as opposed to an enterprise that is servicing a designated community (social purpose); but is also largely serving more narrowly private interests—an investor community.

8. Accounting for Profits

Simply put, profits are the difference between revenue and costs. One can calculate before and after-tax profits as well. For our purposes we can equate profits with the surplus earned by the firm. One basic definition of profit is:

Profit is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business.

Source:

<https://www.investopedia.com/terms/p/profit.asp>

A social enterprise is not supposed to have as its goal to maximise the difference between revenue and costs, but rather to meet its social purpose. But a social enterprise can provide **generous benefits to investors**. This is not counted as profits. This simply increases costs. And, this can come at the expense of profits. Here, profits are not maximised, but benefits accruing to investors are increasing.

In a co-operative, member-owners can decide to increase benefits to member-owners, such as employees, its member-consumers or suppliers. This too will reduce profits or surplus. But in this case the redistribution of firm revenue prior to the determination of profits, is a more equitable one, benefiting member-owners not a narrow group of investors.

Being a non-profit entity does not tell us anything about how revenue to the firm is distributed. This can only be done interrogating the black box of the firm. How surplus is distributed can affect equity but also efficiency and finally the extent to which the designated population, from the perspective of social purpose, has its wellbeing enhanced or enhanced to the extent that it can be.

9. Thinking About the Co-operative Advantage and Social Enterprise

It is important to understand the extent to which social enterprise is 'naturally' progressive in the sense of being people-centred as opposed to being a non-profit organisation that is organised to provide social services or meet a particular social purpose. The latter can take many forms including ones that are exploitative of the end user. A social enterprise can be operated like a for-profit investor-owned firm in terms of focusing on cutting immediate costs and maximising managerial and owner benefits, where the latter objectives are consistent with not being a profit maximising organization. This would be consistent with the expected behaviour of a privately-owned NGO or a state-owned enterprise. In this type of organisation profits can also be low when managerial and ownership returns are very high, eating up profits or surplus. Hence the importance of understanding accounting definitions of profits and losses and what this means with regards to defining and identifying types of social enterprises (see **Accounting for Profits**, above). Being a social enterprise is, therefore, not necessarily progressive.

But a social enterprise can take on a co-operative organisational form which is naturally progressive if the fundamental co-operative forms of governance are applied (stipulated in International Co-operative Alliance co-operative principles, see above). An NGO might be progressive for reasons of the preferences of its decision-makers; but such progressiveness is not a structural component of the social enterprise, whereas it is in a co-operative social enterprise.

One can argue that the co-operative social enterprise is superior in terms of potential quality of service, productivity, and equity and can be economically sustainable as well. The co-op's efficiency is related to the incentive environment of a member-owned organisation that incentivises members to work smarter and harder—to be more productive and produce at high quality standards. Co-operatives should therefore be the most relatively cost-effective organisational form in the social enterprise space controlling for the quality of service or product provided. Therefore, in the social enterprise domain the co-operative is a superior organisation form. Moreover, the equity piece is a function of members determining co-op policy and the dispersion of benefits. Equity can contribute to increased efficiency to compensate for any consequential increased costs (Altman 2006, 2009, 2014, 2015a; Novkovic 2006; Sexton and Iskow 1993).

In terms of government social policy and various forms of public funding, it is important to understand how particular social enterprises are structured with regards to their capacity to deliver specific outcomes, especially if these are vested in notions of social justice (progressive) often coupled with economic efficiency. Moreover, it is important to determine how costs and profits (surplus) are determined and surplus dispersed.

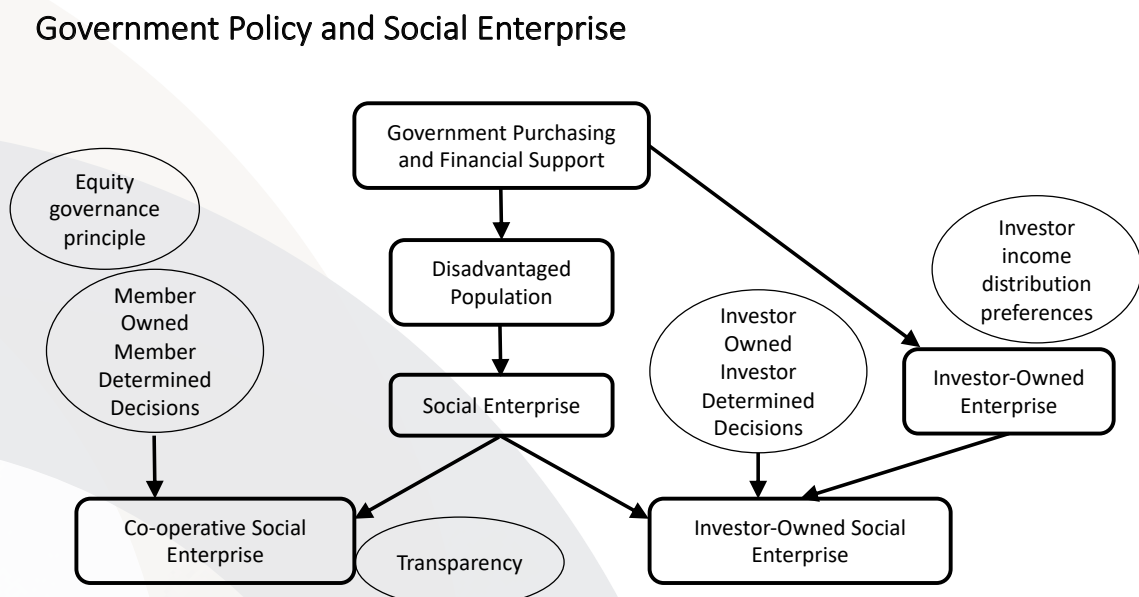
10. Government Policy and Behavioural Change

When government privileges social enterprises financially through social procurement policy or subsidies one would expect rational profit or own-income maximising individuals to seek ways to fit into the accepted definitions of what constitutes a social enterprise. A firm that is currently a for-profit enterprise might convert into a social enterprise, if this means that this firm would now have access to government contracts or funding. An important question then arises as to what is different between the once profit-seeking firm and the same firm that now wishes to define itself as a social enterprise.

This brings us back again to what a social enterprise actually is and how it differs substantively from an investor-owned firm or enterprise, apart from a formerly profit-oriented firm being reborn as a social enterprise. A co-operative and a mutual, on the other hand, remain a co-operative and a mutual irrespective of a change in the government designed incentive environment. What becomes critical is the extent to which co-operatives and mutuals abide by co-operative principles and the extent to which the social purpose of the co-operative align with the social objectives of government.

Diagram Five illustrates some of these points. Governments, by preferencing social enterprises, can encourage investor-owned firms to convert into social enterprises. When purchasing from a social enterprise it is important to determine ownership and the decision-making process to better understand outcomes and how these impact on all stakeholders, inclusive of the target population. What is the quality of the output, how fair is the production process and the distribution of income, become key issues. It is critically important to understand what transpires in the black box of the social enterprise. That's why it's vital that the black box be made transparent, which is one of the governing principles of co-operatives and mutuals.

Diagram Five



11. Conclusion

Determining what a social enterprise is becomes critically important if this determination has an effect on public spending. As well, it is also important if being credited as a social enterprise serves to signal a certain behaviour and quality of product to potential and current consumers and financial supporters. Thus, when governments financially privilege a social enterprise with contracts and subsidies, what that social enterprise really is becomes even more significant as it has a broader social impact—public funds are being directed to certain types of firms.

Co-operatives and mutuals fall under the rubric of a social enterprise given the specific core definitions of what a social enterprise is as well as the various broader definitions in place. Fundamentally, co-operatives and mutuals, like social enterprises, having a social purpose embedded in their principles, trade to earn their revenue, and invest their surplus or profit or a proportion thereof in their social purpose. Co-operatives and mutuals, therefore, can be oriented towards meeting the specific goals a government's agenda may require of social enterprises in order to meeting a society's needs, such as improving the wellbeing of a disadvantaged population or improving the environment.

More narrowly, co-operatives and mutuals might fit into a particular designation of social enterprise when a co-operative is simply producing very generic goods and services, given that it's member-owned, benefiting and empowering the member-owners in a competitive and sustainable fashion. Mutuals, simply by loaning money to a disadvantaged population at reasonable rates, where the disadvantaged own the mutual, serve the role of a social enterprise, even more so than micro-finance firms that are investor-owned and typically charge very high rates of interest.

Given adherence to co-operative principles, co-operatives have an advantage over investor-owned social enterprises. This advantage flows from higher efficiency (in terms of productivity) and quality that flows from such member-owned enterprises. Moreover, amongst co-operatives and mutuals, there should be more equity amongst members whilst also increasing enterprise efficiency and quality of output. This is not to say that social enterprises can't be investor-owned. But it is important to note that there are different social outcomes which can be expected to flow from these critically different types of organisations.

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Appendix One

Social Traders, Australia

Social enterprises are businesses that trade to intentionally tackle social problems, improve communities, provide people access to employment and training, or help the environment.

Using the power of the marketplace to solve the most pressing societal problems, social enterprises are commercially viable businesses existing to benefit the public and the community, rather than shareholders and owners.

In the Australian context, there is no legal structure called social enterprise but we define social enterprise as organisations that:

- Are driven by a public or community cause, be it social, environmental, cultural or economic
- Derive most of their income from trade, not donations or grants
- Use the majority (at least 50%) of their profits to work towards their social mission

Beneficiaries:

People with disabilities—35 percent.

Young People—33 percent

Disadvantaged women—28 percent

<https://www.socialtraders.com.au/about-social-enterprise/what-is-a-social-enterprise/social-enterprise-definition/>

Social Enterprise, United Kingdom

How do social enterprises work?

By selling goods and services in the open market, social enterprises reinvest the money they make back into their business or the local community. This allows them to tackle social problems, improve people's life chances, support communities and help the environment. So, when a social enterprise profits society profits.

Social enterprises are businesses. They must generate the majority (more than 50%) of their income through trade. We recognise however, that many start-up businesses of any form need funding to get off the ground and turn to readily available sources. With this in mind, we usually expect that within two years of operating, genuine social enterprises generate more than 50% of their income through their own trading activities.

According to Social Enterprise UK, social enterprises should:

- Have a clear social and/or environmental mission set out in their governing documents
- Generate the majority of their income through trade
- Reinvest the majority of their profits
- Be autonomous of state
- Be majority controlled in the interests of the social mission
- Be accountable and transparent

<https://www.socialenterprise.org.uk/Pages/FAQs/Category/FAQs>

See also,

<https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=96f544c0-eb5c-404a-92a2-e040e49148f9>

BC (British Columbia, Canada) Centre for Social Enterprise

Social enterprises are revenue-generating businesses with a twist. Whether operated by a non-profit organization or by a for-profit company, a social enterprise has two goals: to achieve social, cultural, community economic and/or environmental outcomes; and, to earn revenue.

On the surface, many social enterprises look, feel, and even operate like traditional businesses. But looking more deeply, one discovers the defining characteristics of the social enterprise: mission is at the centre of business, with income generation playing an important supporting role (from The Centre for Community Enterprise).

Are you running a social enterprise?

One test for a non-profit or charity that believes it is operating a social enterprise: what are you selling? It could be that you are operating with an entrepreneurial mindset within your organization, but if you are not selling a good or service into the marketplace, you aren't running a business: you may be running a social program, but not a social enterprise.

And a test for a traditional business that believes it is operating a social enterprise: to what degree do social / environmental goals steer your ship? If profit is paramount (and particularly if individual owners or shareholders are personally benefitting), you may be engaging in socially conscious purchasing or corporate social responsibility, rather than operating a social enterprise.

Another possible definition: A social economy enterprise operates like a business, produces goods and services for the market, but manages its operations and redirects its surpluses in pursuit of social and environmental goals. (from Western Economic Diversification).

Appendix One (continued)

An equally noble goal of social enterprise (aside from generating revenues to pursue a mission) is the **training and/or employment of people who are typically excluded from the mainstream economy**, thus creating capacity and self-sufficiency for individuals, and impacting their communities and lessening reliance on the social safety net. This element alone can denote a social enterprise.

<https://www.centreforsocialenterprise.com/what-is-social-enterprise/>

Certification and Social Enterprise in Australia

Social Enterprise Certification Launches in Australia

Social enterprises in Australia will be able to receive national certification for the first time, with the launch of a new certification scheme.

Australia's leading social enterprise development organisation, Social Traders, launched a certification mark for Australian social enterprises on Monday.

This certification is designed to provide social enterprises with brand credibility, and enhance their prospects of winning commercial procurement contracts with business and government buyers.

"Overall, Social Traders certification is designed to create a more well-defined social enterprise sector and greatly enhance opportunities for growth," Social Traders managing director David Brookes said.

"Until now, the social enterprise sector has been loosely identified with no single definition. For us, social purpose is the primary criteria and as such recognition via Social Traders certification makes it easier for business and government to buy from these social enterprises.

"We are certifying enterprises that meet a definition, which closely aligns with international standards. We aim to provide credibility, and share the awareness and trust that lies in the reputation of Social Traders."

While social enterprise certification had been tested in some other parts of the world like the UK, this is the first time it is available for the approximately 20,000 social enterprises operating in the Australian marketplace.

Brookes explained to Pro Bono News that Social Traders' certification criteria ensured certified organisations invested the majority of their profit into supporting their mission.

"The certification process requires enterprises to provide financial information and supporting documents around their organisation," Brookes said.

"It can take around a week and through that process, we will check the organisation against those criteria before they can receive our certification mark."

This comes as Social Traders recently announced it was **focusing exclusively on job creation** through social enterprise procurement.

The organisation estimated that for every \$100,000 spent on social procurement, 1.5 jobs would be created for disadvantaged Australians.

Brookes said this certification scheme would help Social Traders reach their target to create 1,500 jobs over the next four years, through facilitating \$105 million in social procurement.

“Certification is absolutely critical and I think that our certification will become increasingly important for social enterprises to be recognised and to actually win and deliver on these emerging contract and procurement opportunities.”

Scott Buckland is the general manager of Yarra View Nursey – a social enterprise employing people with intellectual disability – which won a \$500,000 contract with the Victorian government Level Crossing Removal Authority.

He said a constant challenge for social enterprises was establishing commercial credibility with buyers, but that Social Traders’ certification would help to break down these stigmas.

Social enterprises can apply for certification on the Social Traders’ website.

Source:

<https://probonoaustralia.com.au/news/2018/04/social-enterprise-certification-launches-australia/>

See also:

<https://social-traders.force.com/portal/s/supplier-registration>

Appendix One (continued)

Social Traders Certification (Taken directly from the Social Traders website)

Supplier certification self-identification

A Social Traders certified supplier will be able to meet the following criteria:

1. The enterprise has a defined primary social purpose (this includes environmental or other public benefit) and is able to provide evidence of its achievement;
2. The enterprise derives a substantial portion of its income from trade
3. The enterprise reinvests 50% or more of any annual profits made towards achieving the social purpose.

As you progress through your application, you will be asked to provide documentation verifying your enterprise meets the criteria. These documents are held confidential and used for certification purposes only.

Source:

<https://social-traders.force.com/portal/s/supplier-registration>



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