

Dear Not for Profit Sector Review

You are seeking comment on the contribution of the not-for-profit sector in Australia as part of your review.

The issues paper that you have released has a section "Trends and Developments" in it. Within that section, the following discussion point is made:

"The role of social enterprises has expanded. Social enterprises are defined as organisations which ‘... undertake any private activity conducted in the public interest, organised with an entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals’ (Novak 2002, p. 60). Examples include Social Ventures Australia and Work Ventures."

While the social enterprise sector in Australia is diverse and expanding, Australia lags considerably developments in this area compared to other countries. There is much evidence on the "success" of social enterprise in other economies which needs to be considered. There is also much misinformation around about "social enterprise" with regard to whether it should be counted as part of the "not-for-profit" sector. Not all 'social enterprise' is regarded as "not-for-profit" in the conventional sense of the term.

I would like therefore to provide the following comments about this issue.

Not all Social Enterprises are Not-For Profits

1. Social Enterprise Definition

Most social enterprises in Australia support the broad definition of social enterprise that has been adopted for that sector in the UK (See the "Definition of Social Enterprise" attached below as developed by "Social Enterprise London").

Working within this definition, the social enterprise sector distinguishes itself from both the private sector and the not-for-profit sector as (by definition) social enterprises aim to make profits while being owned by a range of stakeholders whose primary aim is not the distribution of profits to shareholders. For this reason, social enterprises are often referred to as "social purpose businesses" - not for profit, not for charity, but for social purpose.

2. Alternative Business Structures

You might not be aware of the role that alternative business structures such as cooperatives, ESOPs, community trusts and other stakeholder owned enterprises are playing in:

- i. the development of social enterprises in both Australia and - much more extensively - overseas, and
- ii. generating the broad ownership and participation essential to successful social inclusion.

Alternative business structures are a distinguishing feature of social enterprise development. There are many self help and grass roots initiatives involving non conventional business structures now considered in the realm of social enterprise in Australia.

These developments are further informed by looking at the history of the "Social Enterprise of the Year" Awards in the UK. The variety of social enterprise business models is quite evident - and none are the usual "not-for-profit" business model of the company limited by guarantee. (See google for case studies of each of these best practice examples of social enterprise):

1. 2008 winner - "The Phone Coop" - a trading cooperative.
2. 2007 winner - "The Chocolate Factory" - an unlisted public company in the fair trade business, half owned by a Ghanaian cocoa cooperative, with the remainder divided up between the Body Shop and several charities, foundations, fair trade agencies and other social investors.
3. 2006 winner - Sunderland Home Care Associates - a private company owned by an employee benefits trust (ESOP).

There is a need in Australia to take up the message that the Social Enterprise Coalition in the UK has been making about the necessity for a greater range of business models to provide more 'diversity' in the "for profit" economy. As Jonathan Bland, chief executive of the Social Enterprise Coalition, said in the UK Guardian newspaper on 20th August, 2007, "Britain has a very "thin" model of business. The reality, he says, is that there are a range of fantastic business models but a real ignorance about the fact we can use them and be successful".

3. Evidence of the Success of Social Enterprise

For evidence on the success of the "for social purpose" business values (combined with 'stakeholder ownership'), you can see the report from the UK Employee Ownership Association, (published February, 2009) called "Making Employee Ownership Work: A Benchmark Guide" (you can access it at: <http://www.employeeownership.co.uk/publications.asp>).

This report provides evidence on the phenomenal job creation results for those innovative, profit-making social enterprises which share ownership with their employees.

The report profiles 25 companies where successful employee ownership has been introduced - and it counts amongst these case studies, several of the UK's most successful social enterprises, including:

- eaga Plc (started with 4 people retrofitting council housing - now employing 4000 'co-owners')
- Sunderland Home Care Associates (started as a small coop employing half a dozen women in the economically deprived NE of England, now employing 300

'co-owners' in the same area. Winner of the UK "Social Enterprise of the Year" Award in 2006).

- Loch Fyne Oysters (started as a regional development initiative some 30 years ago, part-funded by the Highland and Islands Development Board, now employing 120 'co-owners').
- Highland Home Carers (social care provider providing employment to workers in remote areas, now employing 130 'co-owners').

The report details how these social enterprises got it right from the "employee engagement, governance and voice, rewards and ethics/CSR" angles. None of these issues are normally associated with the "not-for-profit" sector.

This kind of evidence is also good for innovative social enterprise because "success" in this way is now enabling "association" of social enterprise with high reputation businesses in the 'real' economy.

4. Community Development Finance and Social Enterprise

For an excellent new report on the key issue of financing social enterprise, see "Financial inclusion, market failures and new markets: Possibilities for Community Development Finance Institutions in Australia", by Ingrid Burkett and Belinda Drew, which has just been released by Foresters Community Finance. (You can access a copy of this report at: <http://www.foresters.org.au/SocialInnovationEducation/Publications.aspx>). This report covers good new ground on the growth of the social enterprise sector and adds some interesting new definitional examples.

This report places the priority for CDFIs squarely into the mainstream of social enterprise development where the demand for "patient capital" and social enterprise focussed business finance and lending practices remains under-addressed in Australia. This report deserves some study for its transformative "thinking" value alone with regard to whether social enterprise is part of the "not-for profit" sector or whether the boundaries between the "not-for-profit" and the "for profit" sectors are becoming increasingly blurred. Or indeed (as Foresters Community Finance subscribes to) whether social enterprises comprise a growing - and new - "Fourth Sector".

I hope you find these comments useful to your review.

Regards

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The Mercury Centre is a member of the Australian Employee Ownership Association (www.aeo.org.au) and the Cooperative Federation of NSW (<http://www.coopsnsw.org.au/>).

Definition of Social Enterprise

“Social enterprises are businesses that trade in the market in order to fulfil social aims. They bring people together in order to fulfil social gain. Social enterprises have three common characteristics:

- a) Enterprise Orientated: They are directly involved in the production of goods and the provision of services to the market. They seek to be viable trading concerns, making a surplus from trading.
- b) Social Aims: They have explicit social aims such as job creation, training and provision of local services. They have ethical values including a commitment to local capacity building. They are accountable to their members and the wider community for their social, environmental and economic impact.
- c) Social Ownership: They are autonomous organisations with a governance and ownership structure based on participation by stakeholder groups (users or clients, local community groups, etc.) or by trustees. Profits are distributed as profit sharing to stakeholders or used for the benefit of the community.

1.3 Types of social enterprise

There are many different types of social enterprises which cover a wide range of forms and functions.

- Community businesses: social enterprises that have a strong geographical definition and focus on local markets and local services.
- Social firms: provide employment and training to people with disabilities and other disadvantaged groups.
- Intermediate labour market companies: provide training and work for the long-term unemployed.
- Development trusts: key actors in community based regeneration.
- Credit unions: provide access to finance.
- Co-operatives: associations of persons united to meet common economic and social needs through jointly owned enterprises.
- Employee owned businesses: create and rescue jobs as part of economic development strategies.
- Charities’ trading arms: enable charities to meet their objectives in innovative ways, such as Fair Trade companies.