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SOCIAL ENTERPRISE:
FROM DEFINITIONS TO DEVELOPMENTS IN PRACTICE

MARTA MARETICH AND MARGARET BOLTON | SEPTEMBER 2010

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PREFACE

Venture philanthropy has come a long way since the European Venture Philanthropy Association (EVPA) was set up in 2004. The distinction between the nonprofit and the for-profit sectors has become blurred with the emergence of social entrepreneurship and the increased demand for transparency and performance measurement to assess the efficiency of nonprofit organisations. Meanwhile, foundations have considered how to change some of their practices in order to better assist the social sector and how to align their investments with their social mission. Venture philanthropy is positioned at the intersection of the for-profit and nonprofit sectors. As such, venture philanthropy includes high engagement and a range of financing mechanisms tailored to the needs of the social purpose organisation, be it a nonprofit organisation or a social enterprise. Some venture philanthropists started off providing grants to nonprofit organisations , albeit in an engaged manner. Others supported social enterprises through tailored financing. Many have realized that they share the overall aim of building stronger organisations that can better achieve social impact.

However, although providing grants to nonprofit organisations and investing in social enterprise (social investing) have many things in common, there are also differences between the two approaches. The EVPA has acknowledged the potential of "social investing" and has decided to undertake several actions to enhance its knowledge thereof. The aim is to assist our members in developing best practices, and attracting resources to the area. This paper is the first in a series of research reports with a focus on social enterprise investing. The report was commissioned to two consultants with knowledge of the social enterprise space. The objective of this first paper was largely exploratory: to determine how academics and practitioners define social enterprise and how EVPA members are evolving methods for supporting social enterprise. The paper offers a broad definition of social enterprise and some sub-types that are intended to provide practitioners with multiple pathways to engage in social enterprise. Since the development of this report, the EVPA has decided to set up a task force on social investment. The next report on investing in social enterprise will build on the work of this group of experts. We hope that this report will encourage the exchange of ideas and lead to best practice for investing in social enterprise.

Lisa Hehenberger, EVPA Research Director, September 2010

EXECUTIVE SUMMARY

This research report explores the definitions of social enterprise in academic literature and in the experience of the venture philanthropy practitioners of EVPA. It moves beyond merely defining social enterprise and investigates how EVPA members support social enterprise in different ways, identifying some common trends and challenges facing those supporting developing social enterprises. The aim of this research is to establish common ground in order to promote peer learning and enhance the exchange of ideas. This paper is a first in a series of EVPA initiatives on social enterprise and its practice.

Definitions of social enterprise

The first part of the report scans a number of academic studies on social enterprise and concludes that no standard definition of social enterprise exists as of yet. Comparing findings from this review with data derived from interviews, the report documents the diverse definitions of social enterprise adopted by EVPA practitioners. EVPA itself offers a broad definition of social enterprise as an organisation that *focuses on achieving social impact, applying market-based solutions to address public sector and market failure in innovative ways.*

The absence of a universally agreed definition for social enterprise, the report suggests, makes it more difficult for EVPA members and other social enterprise support practitioners to capture and share learning. One way around this obstacle, the report finds, is to identify significant sub-types of social enterprises and study these. Some possible sub-types of social enterprises emerged from the research with EVPA members. These included social enterprises that:

1. Are led by a social entrepreneur, applying entrepreneurial solutions to solve social problems;

2. Grow up within or alongside charities, usually with the purpose of supporting the charity through trading activities;

3. Trade extensively with the public sector;

4. Are private sector businesses with a social purpose;

5. Form part of a broader, integrated programme for social benefit;

6. Share a legal form recognized in individual countries as social enterprise.

Developing support approaches

The second part of the report explores and documents different approaches that EVPA members are currently using to support social enterprise development in different kinds of organisations. Drawn directly from the research with EVPA members, four case studies highlight a range of techniques and provide examples of VP funds that:

1. **Focus on social entrepreneurs** to support the development of financially sustainable social enterprises;

2. **Help charities and other not-for-profits set up social enterprises** with revenue-generating activities, enabling them to better achieve social change;

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3. **Provide a range of support mechanisms** targeting the specific organisational needs of the investees can help social enterprises move towards greater social impact and financial sustainability;

4. **Work to promote awareness** and understanding of social enterprise practice and create a favourable environment in markets that lack institutional support for social enterprise.

Common dilemmas and challenges

Finally, the research carried out for this report found a cluster of common dilemmas and challenges faced by EVPA members who support the development of social enterprises. These are driving some of the changes to the way the venture philanthropy funds are working with social enterprises and shaping their support approaches:

- Founder syndrome: An over-emphasis on the founder and social entrepreneur can hinder growth and professionalization of the enterprise.

- Attracting managerial talent: The social sector still struggles to attract the best people because of its lack of reputation and financial resources.

- Appreciating the need for support over the longer term: Social enterprises may need support for a longer time period than was initially envisaged by VP funds.

- Rethinking the exit strategy: How can the exit strategy form part of the processes that makes social enterprises more resilient and ready to move on to the next stage of their development?

- Taking governance seriously: The board needs to be an engaged strategic part of the process.

- Struggling with impact measurement: There is a desire for standardization, but at the same time a realization that the social sector is complex to "measure".

Conclusions

The report concludes that EVPA members need to develop their support mechanisms in line with the quickly evolving social enterprise movement. Much work lies ahead if a separate asset class for social enterprise is to be established. With this report, the EVPA has provided a starting point for future work to build on.

INTRODUCTION & METHODOLOGY

INTRODUCTION

Definitions of 'social enterprise' take radically different forms with different commentators who have debated the meaning of the term across a range of academic, institutional and even social platforms. Significantly, as the debate continues, so does the proliferation and dissemination of social enterprise practice and the mechanisms that support it. For social enterprise promoters and practitioners, such as the members of the European Venture Philanthropy Association (EVPA), this raises some key questions addressed in this paper:

1. What are the definitions of social enterprise found in theory and practice?

2. Can we find ways to identify different sub-types of social enterprise as a way to facilitate learning?

3. How are EVPA members currently supporting social enterprise in different ways?

The first part of the report provides a brief review of recent literature on social enterprise definitions, including EVPA's own definition. It compares these findings to the definitions drawn from interviews with a limited sample of EVPA members, highlighting the diversity among them. It explores the potential of legal forms to act as definitions but concludes, as stated before, that there is as yet no universal definition of social enterprise.

In light of this lack of a single definition, the report then proposes a strategy for furthering the study of social enterprise practice through identifying sub-types of social enterprises. It offers a selection of potential sub-types drawn from the findings of our research with EVPA members. Part two of the report uses case studies to illustrate the way a selection of EVPA members are supporting different kinds of social enterprises as they grow and mature. Finally, the report identifies some important sector trends that are driving the changes in the way EVPA members are supporting social enterprises.

METHODOLOGY

This report is based on a series of interviews conducted with a small number of EVPA members. Our sample comprised 25 interviewees including 22 EVPA members from 12 different countries. The funds they manage varied greatly in size, geographical location and approach to social enterprise. Overall, they supported a wide variety of social enterprises to which they offered both financial and non-financial support in different ways. Interviews were also conducted with a small number of key figures in the foundation world and academics with an interest in social enterprise.

Additionally, the report incorporates material gathered in workshops, plenary sessions and conversations with attendees of the EVPA conference on social enterprise in Amsterdam, on the 17th and 18th November 2009. It draws background from research studies published by the Social Enterprise Coalition and the Economic and Social Research Council in the UK and European research agencies including EMES and KMU Forschung Austria for the European Commission and from a variety of other sources including books, working papers, policy documents and websites. Though for the most part presented anonymously, all the quotes are taken from the interviews unless otherwise attributed.

PART 1

DEFINITIONS OF SOCIAL ENTERPRISE AND EVPA

Definitions in literature

In the literature of social enterprise, the question of definitions remains controversial and is so far unresolved. In a joint report[1] reviewing the state of research into social enterprise, the Social Enterprise Coalition (SEC) and the Economic and Social Research Council (ESRC) acknowledged the diversity of the sector, pointing out the great variety of organisational types, sizes and activities gathered under the banner of social enterprise:

"The umbrella term 'social enterprise' includes a range of organisational types that vary in their activities, size, legal structure, geographic scope, funding, motivations, degree of profit orientation, relationship with communities, ownership and culture."

This diversity, and the fact that the sector is developing rapidly, makes it difficult to pin down a satisfactory definition, says the report.

Nonetheless, researchers such as European Research Network (EMES)[2] and KMU Forschung Austria[3] (for the European Commission) and others have tried to establish definitions for the European social enterprise sector. They do this mainly by identifying shared characteristics among organisations, such as "enterprise orientation" or "social aims". The problem with this approach is that it makes no attempt "to differentiate those (characteristics) that typify social enterprises from those that define them." As a result, there are frequent examples of recognized social enterprises that don't match one or more of the characteristics often cited by researchers. (For example, not generating profits for shareholder distribution is often used as a defining characteristic. Yet Community Interest Companies (CICs) in the UK are intended to distribute capped dividends to shareholders.)

The only characteristics that actually define rather than describe or typify social enterprises, according to the conclusions of the ESRC/SEC report, are:

    a) the primacy of social aims and

    b) a primary activity that involves trading goods or services.

Taking a slightly different approach to the question of definitions, we turn to the literature on social entrepreneurship to guide us in developing a working definition of social enterprise. According to a meta-analysis of 152 academic articles on social entrepreneurship spanning 20 years, published in the Strategic Entrepreneurship Journal in 2009[4] researchers concluded that the common denominator in social entrepreneurship research was the *creation of social value*. Notably, several of EVPA's academic members have contributed to the ongoing research on social entrepreneurship. Johanna Mair and colleagues at IESE view social entrepreneurship as a process that seeks to create social value by stimulating social change[5]. Accordingly, they identify social entrepreneurial initiatives[6] as those that:

- proactively address social or environmental issues through delivery of a product or service that catalyzes social change;

- challenge or disrupt existing rules and institutions;

- create new markets, opening up a space for customers and competitors and fostering supply and demand.

[1] Peattie, K. and Morley, A. (2009) *Social Enterprises: Diversity and Dynamics, Contexts and Contributions*, SEC/ESRC, ESRC Centre for Business Relationships, Accountability Sustainability and Society, Cardiff.

[2] Defourny, J., Nyssens, M. (2008) *Social Enterprise in Europe: Recent trends and developments.*

[3] KMU Forschung Austria, (2007) *Study on Practices and Policies in the Social Enterprise Sector in Europe.*

[4] Short, Jeremy C., Moss, Todd W., Lumpkin, G.T. (2009) *Research in Social Entrepreneurship: Past Contributions and Future Opportunities, Strategic Entrepreneurship Journal.*

[5] Mair, J., Marti, I. (2006) *Social entrepreneurship research: a source of explanation, prediction, and delight. Journal of World Business.*

[6] Mair, J., Ganly, K. (2009) *Social Entrepreneurs: Innovating Toward Sustainability*, www.worldwatch.org.

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SOCIAL ENTERPRISES FOCUS ON CREATING VALUE FOR SOCIETY.

Filipe Santos at INSEAD argues that: "What distinguishes social entrepreneurship from commercial entrepreneurship is a predominant focus on value creation as opposed to a predominant focus on value appropriation[7]". Furthermore, social entrepreneurship acts to generate positive externalities (creating social value) that are neglected by governments due to lack of resources or knowledge and uninteresting to profit-oriented entrepreneurs due to the low likelihood of appropriating value.

Based on these studies into social entrepreneurship, rather than those focusing solely on social enterprise as such, the EVPA has concluded that social enterprise, if seen as a vehicle used by social entrepreneurs, is characterized by the following features:

1. A focus on creating value for society (as opposed to appropriating value);

2. Addresses public sector and market failure by challenging or disrupting existing rules and institutions;

3. Applies market-based solutions in innovative ways.

Definitions among EVPA members

During our survey, we asked a sample of EVPA members from a variety of European countries how they defined social enterprise. Not surprisingly given the current state of the debate on the subject, their responses varied, offering an illustration on a minute scale of the fragmentation in the sector. What follows is a summary characterizing the types of responses members gave.

The most common response echoed the simplest definition of social enterprise more or less precisely: a trading business with a social purpose. This was also the definition most commonly referred to at the EVPA conference on social enterprise in Amsterdam:

- "A for-profit organisation with a social mission."

- "Behaves like a business but seeks to achieve social as well as financial goals. Is sustainable and covers its costs."

- "An approach that solves social problems using business methods."

Respondents from places where social enterprises adopt a particular legal form were apt to give the legal definition from their country:

- "Organisations that provide state services are called social enterprises. 50% of their revenues come from the final service user. They work in a near market model but don't cover extreme social need." (Italy)

- "More than 40% of the staff comes from socially disadvantaged people." (Lithuania)

One interviewee who is currently struggling because the legal forms currently available to her organisation are very restrictive, gave this answer:

- "What we're doing still has no legal form here. Once any kind of business passes the €10,000 mark, it's taxed just like a for-profit private enterprise." (This interviewee went on to describe what her organisation, Partners in Ideas, is doing to establish a legal form for social enterprise in Latvia.)

[7] Santos, F. (2009) A Positive Theory of Social Entrepreneurship, INSEAD Working Paper.

Some respondents wished to keep the focus on social entrepreneurs, or saw social enterprises mainly as organisations led by social entrepreneurs:

- "We focus on supporting social entrepreneurs not social enterprise. We help individuals with an idea."

Others flatly denied being involved in social enterprise:

- "We're not dedicated to social entrepreneurship, we're dedicated to alleviating poverty. We focus on solving social problems by deploying new and innovative methods."

- "We only do venture capital investment with a social return on investment."

Some – and these also represented an important theme at the conference in Amsterdam – were reluctant to define it at all:

- "We try not to get caught up in definitions. Anything with a commercial angle in a charitable setting, with income generation."

- "Let's not get hung up on definitions."

- "We don't define it. We are looking for social and environmental solutions."

This study included a limited sample of EVPA members and as such cannot provide a picture of how the entire population of EVPA members define social enterprise. However, the types and range of responses are in keeping with what we know about the EVPA membership. They reflect the current state of the debate about definitions and chime with the findings of the SEC/ESRC and other reports, underscoring fragmentation in the sector.

Acknowledging diversity among social enterprises: Among EVPA interviewees, the most common view of social enterprise characterized it as a "business with a social purpose". And yet in both the interviews and conference discussion, further questions revealed that EVPA members are aware that social enterprises often don't fit comfortably into this description.

For many, this insight grew out of direct experience that contradicted received views on what social enterprise is or isn't. "It's much more complicated in practice," one VP fund manager commented, typifying remarks made by several interviewees. While a small minority of respondents expressed frustration at the suggestion that social enterprises are somehow different than normal enterprises, ("I don't think there should be any difference - they are all enterprises," said one fund manager) many were sensitive to the differences. Some also showed awareness that their own views of how organisations should work (which typically grew out of a business or finance sector perspective) weren't something they could necessarily impose on the social enterprises they were working with.

Their perceptions resonate with sector literature demonstrating that the development of social enterprises is influenced by a large number of factors such as legal and regulatory status, funding relationships, stakeholder influence and mission focus, to name just a few. These factors distinguish social enterprises from one another. Frequently, they also distinguish social enterprises from pure private enterprises, since the influences on them are different and more varied. Some studies, like the SEC/ESRC report[8], points out the "hybrid" character of social enterprises because they frequently operate across sector lines

SOCIAL ENTERPRISE IS AN APPROACH THAT SOLVES SOCIAL PROBLEMS USING BUSINESS METHODS.

[8] *Peattie, K. and Morley, A. (2009) Social Enterprises: Diversity and Dynamics, Contexts and Contributions, SEC/ESRC, ESRC Centre for Business Relationships, Accountability Sustainability and Society, Cardiff.*

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SOCIAL ENTERPRISES FREQUENTLY OPERATE ACROSS SECTOR LINES AND FUSE VALUES AND METHODS FROM DIFFERENT SECTORS.

and fuse values and methods from different sectors. Indeed, these hybridized models have contributed to dissolving the boundaries between the for-profit and not-for-profit sectors.

To provide one common example, social enterprises are frequently (if not necessarily) developed as part of or alongside charities or other types of mission-driven organisations. These social enterprises may operate in a context of determinative legal structures, complicated funding arrangements and influential stakeholders. But the real difference between them and "pure" for-profit enterprises may lie in deep, often unexamined attitudes toward earning profits and the relationship between business and social mission. Such factors influence both the way charitable social enterprises approach their profit making activity and the way they develop as social enterprises. It also affects their interaction with other agencies and businesses, stakeholders, members, the public sector, donors, other kinds of finance providers and those offering non-financial development support. Although most interviewees were not in a position to analyze this in detail, many recognized that these factors also affect the relationship between VP funders and advisors and the organisations they support.

John Pepin, a consultant from JPA Associates, gave an example of the cultural gap that may divide advisors and the organisations they work with. Many of the people offering non-financial support to charitable social enterprises, he says, "may not even speak the same language as the organisations they are working with. Charities self-identify as charities, not social enterprises. Even the language you use with them is different."

This is only one illustration of the kind of complexity EVPA members may confront as they work with social enterprises. Needless to say, many social enterprises grow up independently of the charitable sector and these face very different challenges. For example, social enterprises that contract extensively with the public sector, as many now do, face a different set of pressures and influences. The range of these challenges underscores the fragmentation of the sector and the need for more awareness of different models and types of social enterprises.

Legal forms as definitions

Legal forms are sometimes used to provide a possible definition for social enterprise. The European Commission report[9] offers a survey of the various legal forms for social enterprises in 31 European countries. It concludes that social enterprises may in practice "operate under any possible legal form or structure" across a huge range of forms from "traditional forms like co-operations and associations" to "modern business models like private limited companies or joint stock companies."

Given this huge range of activity, the report concludes, "specific legal forms…refer to sub-groups only." In other words, legal forms don't offer a shortcut to a universal definition of social enterprise. As the report says elsewhere, in a case study profiling the UK Social Enterprise Unit as an example of good practice, "a social enterprise is not defined by its legal status, but by its nature —its social purpose, the way that its social mission is embedded into the business, in its structure and governance, and the way it uses the profits it generates through its trading activities."

And yet the European Commission report[10] also recognizes that the existence of specific legal forms for social enterprises can be significant to the development of the sector. Evidence from certain countries supports this claim. The creation of the CIC form in the

[9] *KMU Forschung Austria, (2007) Study on Practices and Policies in the Social Enterprise Sector in Europe.*

[10] *KMU Forschung Austria, (2007) Study on Practices and Policies in the Social Enterprise Sector in Europe.*

UK is one example, and the establishment of Law 118, 2005 in Italy, is another. According to the authors, such measures, "can be seen as a main driver for the development of the sector as it regularly assumes a clear definition of social enterprises, which allows for statistical registration and contributes to the visibility of the sector." Certainly, a lack of appropriate legal forms can obstruct the growth of social enterprises, as demonstrated by the case study on the Latvian fund, Partners In Ideas (see the case study for details).

So, while legal forms do not constitute a definition in themselves, they may provide a way of categorizing like organisations and raising the profile of social enterprises. It should be said that the effectiveness of legal definitions as a mechanism for promoting social enterprise is currently being debated. In every country where legal forms for social enterprises exist, many social enterprises choose alternative forms for a variety of reasons including tax advantage. In Italy, Luciano Balbo notes in his article for the EVPA news[11], despite the existence of a legal form that can embrace diverse social enterprises, many organisations still choose to register as co-operatives in order to receive tax relief not available to social enterprises. Some organisations choose their structure somewhat arbitrarily, according to the SEC/ESRC study, while others switch forms strategically at different points in their development. According to Alex Nicholls of the Skoll Centre for Social Entrepreneurship, "Social enterprises are agnostic about legal forms." The admired CIC form in the UK, too, is under scrutiny. An upcoming study by Nicholls reviews its effectiveness as a framework for building successful organisations[12].

Our interviews with EVPA members indicated that legal definitions can be very important to the development of social enterprises in practice. Respondents whose governments had provided legal forms were apt to quote them — usually while pointing out that they did not encompass the whole spectrum of social enterprise activity. Sabine Sile, one interviewee who was lobbying to change the legal treatment of social enterprise in her country, Latvia, also saw the organisations she worked with in terms of that definition, though negatively (see case study on Partners In Ideas). Our research underscored the fact that the way social enterprises are structured, conceptualized, and labeled by policymakers and the government is highly determinative in a number of areas including access to grant funding, loans, support services, tax relief, public sector contracts and so on. Legal definitions may therefore provide one way of usefully distinguishing sub-types of social enterprises in future studies.

Moving towards an EVPA definition

Though a review of existing literature reveals the absence of a universal definition of social enterprise, researchers, policymakers and EVPA members all agree that definitions remain important for the study and regulation of this form of business. Although the lack of a definition is no obstacle to practitioners when it comes to supporting specific types of social enterprises, it hinders them because it makes gathering information, communicating learning and establishing useful models or best practice more difficult. As the second half of this report suggests, sharing learning is especially important now, as individual social enterprises mature and there is a need for new and more sophisticated kinds of support.

EVPA recognizes the need to take a stand about a common definition of social enterprise in order to assist its members in developing a distinct asset class, overcoming regulatory hurdles and encouraging social investment. Acknowledging the early development stage of the overall field of social business, a broad definition of social enterprise has been

A LACK OF APPROPRIATE LEGAL FORMS CAN OBSTRUCT THE GROWTH OF SOCIAL ENTERPRISES.

[11] Balbo, Luciano, (September 2009) European Venture Philanthropy News.

[12] Nicholls A. (2010) Institutionalizing Social Entrepreneurship in Regulatory Space: Reporting And Disclosure By Community Interest Companies, Accounting, Organisations and Society.

PART 1: DEFINITIONS OF SOCIAL ENTERPRISE AND EVPA

EVPA DEFINES SOCIAL ENTERPRISE AS AN ORGANISATION THAT FOCUSES ON ACHIEVING SOCIAL IMPACT, APPLYING MARKET-BASED SOLUTIONS TO ADDRESS PUBLIC SECTOR AND MARKET FAILURE IN INNOVATIVE WAYS.

adopted. EVPA defines social enterprise as an organisation that focuses on *achieving social impact, applying market-based solutions to address public sector and market failure in innovative ways.* Social enterprise can take on a variety of legal forms.

Identifying sub-types of social enterprise

Since the EVPA definition of social enterprise is necessarily broad, a question remains of what is the best way to gather information about social enterprise support practice from a very diverse and rapidly evolving group of member organisations? Our research indicates that identifying sub-types of social enterprises may provide a way forward for the members of EVPA as they seek to derive learning from their practice with social enterprises. The SEC/ESRC report[13] authors suggest that:

> "Acknowledging the diversity within social enterprises, moving beyond the definitional debates and recognizing particular sub-types for what they are, will allow a more nuanced understanding of particular types of social enterprise, and the differences and similarities amongst and between them to emerge. This in turn will help in identifying more clearly areas of commonality with different types of conventional/commercial enterprises, and in identifying opportunities for the effective transfer of knowledge from business literature."

We will present two examples of ways of establishing sub-types of social enterprises that have been developed by CAF Venturesome, an initiative of the Charities Aid Foundation (CAF), before moving on to describe the categories that emerged from this study.

Spectrum of social enterprises: Venturesome has published a series of reports on the broader subject of access to capital for charities in which they discuss social enterprise as one revenue raising strategy among others. One report, *Access to Capital*[14] goes some way toward differentiating various shades and manifestations of social enterprise. To illustrate, Venturesome offers this graphic representation (below) showing the broad spectrum of organisations that are often "loosely referred to as social enterprises".

Venturesome's Spectrum of Organisational Models

[13] *Peattie, K. and Morley, A. (2009) Social Enterprises: Diversity and Dynamics, Contexts and Contributions, SEC/ESRC, ESRC Centre for Business Relationships, Accountability Sustainability and Society, Cardiff.*

[14] *Goodall, E. and Kingston, J. (2009) Access to Capital, Charities Aid Foundation.*

Venturesome's diagram (above) does not offer detail about the organisational types or forms included in each category of the spectrum. However it does serve to show the fundamental conceptual differences that exist among organisations that may be grouped within the category of social enterprise. Furthermore, Venturesome's diagram is a useful illustration for EVPA members who are interested in moving their target organisations across the spectrum towards less dependence on external fundraising.

Relationship between trading activity and social impact: The Three Models of Social Enterprises[15], also from Venturesome, demonstrates another way to differentiate different types of social enterprises. In an approach aimed at helping investors make investment decisions, it breaks social enterprises down into three models, particularly relevant to charitable social enterprise activity, based on the way trading activity relates to social impact:

1. "Profit generator" model: trading activity has no direct social impact; profit from trading is all or partially transferred to another activity that does have direct social impact.

2. "Trade-off" model: trading activity does have direct social impact; there is a trade-off between producing a financial return and producing social impact.

3. "Lock-step" model: trading activity not only has direct social impact but also generates a financial return in direct correlation to the social impact created.

Sub-types emerging from this study: Using interviews with EVPA members who participated in this study, we identified further possible ways of categorizing social enterprises. Potential sub-types may include social enterprises that:

1. Are led by a social entrepreneur, applying entrepreneurial solutions to solve social problems;

2. Grow up within, or alongside charities, usually with the purpose of supporting the charity through trading activities;

3. Trade extensively with the public sector;

4. Are private sector businesses with a social purpose;

5. Form part of a broader, integrated programme for social benefit;

6. Share a legal form recognized in individual countries as social enterprise.

It is important to point out that the study of social enterprise typologies is still in its early days. It will be key to continue to look beyond surface definitions (or sub-definitions, in this case) and maintain a focus on the way organisations actually behave and develop. Seeking to identify various sub-types or models while, in the words of John Kingston of Venturesome, "maintaining neutrality about the various models", will allow learning to move forward as EVPA members develop and diversify their practice of supporting social enterprises.

In the next part of this report, we examine how some EVPA members are beginning to differentiate their support efforts to meet the needs of specific types and kinds of social enterprises.

[15] *Cheng, P. and Ludlow, J. (2008) The Three Models of Social Enterprises: Parts 1 and 2, Charities Aid Foundation.*

PART 2

DEVELOPING SUPPORT APPROACHES

Overview

As we have established, EVPA members currently work with a broad range of social enterprises. They also use a variety of approaches.

It should be pointed out here that these approaches are all being influenced by a trend emerging throughout the social enterprise sector: addressing the need to help individuals and organisations with a social mission on the road to becoming stronger social enterprises. EVPA members are conscious that, if their aim is to encourage the creation of social value, they need to facilitate the development of viable and financially sustainable social enterprises. Indeed, one of the principles of venture philanthropy is to build stronger organisations by investing in capacity building: financing core costs rather than individual projects, and providing non-financial support through an extended time period, usually from 3-7 years. Yet, while models for achieving growth in "regular" enterprises are well developed and taught in MBA programmes all over the world, there is less certainty about what organisational development interventions work — or are appropriate — in the field of social enterprise.

Within the scope of our study, it was not possible to collect detailed data on all the approaches funds were taking to supporting different types of enterprise. What this report seeks to do therefore is to illustrate through four concrete case studies how some EVPA members have developed their practice over recent years and to reflect some of the key issues currently of concern to practitioners, relevant to the issue of enterprise or organisational development. It is possible, based on the limited case studies we have conducted, to start to characterize and distinguish between some of these approaches. The approaches are as follows:

1. *Developing individual social entrepreneurs and/or social enterprise teams capable of delivering services and products that result in significant social benefit (examples include CAN, Ashoka and UnLtd).* More experience of working with social enterprises as they grow and develop is bringing a shift of focus from the entrepreneur to the enterprise. Many EVPA members in this survey acknowledge that there is a limit to what individual entrepreneurs can achieve without a well-functioning organisation behind them. Even the proponent of social entrepreneurs, Charles Leadbeater, has recognized the importance of teams, if not organisations[16]. The focus on maturing enterprises is more prominent in developed countries like the UK where the idea of social enterprise has taken root and there are social enterprises that have survived the early stages and begun to mature.

2. *Focus on helping charities and other not-for-profits develop revenue-generating activities to enable them to become more financially sustainable and better able to achieve social change (examples include NESsT).* Nonprofit organisations that struggle to gain financial sustainability through their core business spend a lot of time and resources on fundraising, when they would be better off focusing on creating social value. Some EVPA members assist nonprofits and charities in becoming financially independent by helping them set up a separate revenue-generating activity alongside the core business.

3. *Provide a range of support mechanisms targeting the specific organisational needs of the investees, helping social enterprises move towards greater social impact and financial sustainability (examples include Noaber Foundation).* Basing their methods

[16] *Leadbeater, Charles, The Observer 25 March 2007, Mainstreaming the Mavericks.*

PART 2: DEVELOPING SUPPORT APPROACHES

PROGRAMMES THAT SUPPORT START-UPS AND EARLY ENTREPRENEURS AREN'T PRODUCING ENOUGH INVESTMENT-READY SOCIAL ENTERPRISES TO SATISFY THE DEMAND OF LATER-STAGE INVESTORS.

on market-based approaches, many EVPA members try to move target organisations along the Venturesome spectrum of social enterprises towards the commercial end, thus achieving greater financial sustainability. The aim is not necessarily to create bigger organisations, but to generate greater social impact by better supporting the various forms of social enterprise. Furthermore, funds like Noaber Foundation and Rianta Capital seek to increase the impact of their projects by purposefully creating networks among social entrepreneurs and fostering synergies among the social enterprises they support.

4. *Work to promote awareness and understanding of social enterprise practice and create a conducive environment for it, (examples include The Good Deed Foundation and Partners in Ideas in Latvia).* In many developing countries, and in general where social enterprise is yet to be recognized by the leading institutions, EVPA members are working hard to create new markets, fostering supply and demand, and challenging and disrupting existing institutions. The Good Deed Foundation is pioneering the use of social enterprise approaches in Estonia, and Partners in Ideas is working to establish an appropriate legal form for social enterprises in Latvia.

From our research, we acknowledge that a scaling up growth model does not apply to all social enterprises. In the developed and developing worlds alike, factors such as lack of access to capital and markets, poor infrastructure and a shortage of business skills can restrict growth, preventing even successful small social enterprises from ever becoming larger organisations. A key indicator of the shift from entrepreneur to enterprise is a greater sense of realism about the prospects of social enterprise start-ups. Many funds have come to accept that, despite an early investment of time and money, a large proportion of projects will not survive or become self-supporting without further help. There's an admission that successful social enterprises aren't the inevitable result of investing in a promising individual, small organisation or idea, or of putting social enterprises in touch with one another. As Adele Blakebrough of CAN-Breakthrough, relates, "I thought it would be enough to provide a network; that the social enterprises would grow on their own, but it just didn't happen."

The evolution from small, entrepreneur-led enterprise to larger organisation implies a very significant cultural shift. For this reason, more needs to be done to support social enterprises as they evolve beyond the start-up stage. But, because of the way the social enterprise movement has developed, there is also a gap in support at this stage. As one interviewee pointed out, "There are lots of people doing earlier-stage support but there's a gap in the middle for growing organisations." Some EVPA organisations are already responding to this need. CAN, for example, has established Breakthrough, a programme dedicated to supporting social enterprises capable of achieving scale. Auridis, from Germany, has similar projects.

In the four cases that follow, we look at how other EVPA member organisations are evolving their approaches to support social enterprises in different circumstances.

Case 1: Targeting established social enterprises

UnLtd is our first example of an organisation that is developing its support programmes for social enterprises in response to the evolution of the sector. UnLtd focuses on the type of social enterprise that is run by a social entrepreneur. One of the first and largest UK programmes providing seed money and support for social entrepreneurs, in recent years, UnLtd has been expanding its focus to include more seasoned leaders of social enterprises. Most recently, it has added a service that seeks to identify more advanced social enterprises (or businesses with a social purpose) and connect them with investors. Their experience indicates:

- It is possible for a support organisation to innovate new approaches to supporting social enterprise while maintaining its original programmes.

- New social enterprises take a long time to develop to maturity. Many will never develop into viable organisations or may stall at a certain stage due to a variety of factors.

- Programmes that support start-ups and early entrepreneurs aren't producing enough investment-ready social enterprises to satisfy the demand of later-stage investors.

- Actively seeking social enterprises to invest in the wider business community is an alternative to incubating social entrepreneurs and start-ups.

UnLtd: Taking aim at more developed enterprises

Since its establishment in 2002, UnLtd has operated two awards schemes for social entrepreneurs and organisations in the earliest stages of development:

Level 1: aimed at individuals and small informal groups; provide between £500 and £5,000 of financial support to 1000 new ideas every year.

Level 2: geared toward individuals running ventures that have been operating for over a year, have turnover of at least £20,000 and can demonstrate social impact; provide up to £15,000 (mainly intended to pay for the living expenses of entrepreneurs) plus 10 days of consultancy support from UnLtd Ventures, the consultancy team for UnLtd.

Three years ago, UnLtd added another level, 3, to provide support to more seasoned social entrepreneurs. While applications to Levels 1 and 2 are open to the public, Level 3 is by invitation only. Consistent with a venture philanthropy approach, Ventures suggests candidates (often Level 2s) then members of the Ventures Advisory Group review them and make recommendations to the full board.

Level 3 offers three years of support for social entrepreneurs with up to £60,000 and 30 days of Ventures consultancy per year. According to UnLtd director of Ventures, Jonathan Jenkins, Level 3 is not just more of the same kind of support to entrepreneurs offered at Levels 1 and 2. "It is very bespoke support, not a set programme. It's still focused on the entrepreneur but it's all about scaling and sustainability for the organisation around the entrepreneur. There's a limit to what you can do with an enterprise as long as you look only at the individual at this stage and beyond."

PART 2: DEVELOPING SUPPORT APPROACHES

While the designation of the award scheme as "levels" would suggest that social entrepreneurs pass from one to the other as their organisations grow, this has not always proved true for UnLtd awardees. "Not all Level 1s progress to Level 2, but that is not the sole intention of Level 1," observes Jenkins. "The programme isn't sold as a step-ladder." Just as few Level 1s make it to Level 2, only some Level 2s qualify for invitation to Level 3. So far seven Level 2 awardees have been invited to participate in Level 3. With ten Level 3 awardees in all, the other three awardees had received no previous support from UnLtd. This underscores the discontinuity between social enterprises at different stages in development, even when receiving support from the same agency.

Advantage, UnLtd's new programme, marks a departure from their historical focus on providing grants and non-financial support to entrepreneurs in the early stages of developing their enterprises and bringing them up through the levels when possible. Set up in response to demand from funders looking for opportunities to invest in viable social enterprises, Advantage is actively seeking social entrepreneurs who, "have already developed scalable, cash generative businesses with good management in place and are looking for at least £250,000 in non-grant (equity or loan) investment," according to Jenkins. Advantage is operated by the UnLtd Ventures team and will focus on investment readiness as well as brokering relationships between suitable funders and social enterprises.

Because it focuses on enterprise as much as entrepreneur, Advantage's brief fell outside UnLtd's core funding stream. The Advantage team raised funding from NESTA, Deutsche Bank, Lovells, the Esmee Fairbairn Foundation and a private donor to support the programme. It has a five-year mission to create a financially viable model for itself.

Although there are some Level 2 and Level 3 awardees participating in the new programme, Advantage is encouraging outside applications from organisations with a range of legal structures including charities, CICs and companies limited by share. Importantly, Jenkins says, they are hoping to reach out beyond the social enterprise sector and attract applications from businesses that may not have previously considered themselves to be social enterprises. They are advertising in private sector trade publications that focus on growing businesses with social missions, such as the online magazine *growingbusiness.co.uk* .

"The pool of social enterprise is overfished," says Jenkins, implying that the pool, at least when it comes to investment-ready, scalable social enterprises in the UK, is too small and not being stocked quickly enough by programmes developing entrepreneurs and start-ups.

Case 2. Helping nonprofits set up a social enterprise

NESsT, our second example demonstrates another approach to supporting the development of social enterprises; helping nonprofit organisations set up social enterprises. NESsT thus focuses on the type of social enterprise that is set up to support a charity with revenue-generating activities. In their case, the focus is on teams instead of individuals and the context is Eastern Europe, a region where social enterprise is in the process of gaining credibility. They use a highly systematic, tools-based approach to move organisations along the path to maturity and viability. NESsT's experience suggests a number of key features that need to be born in mind when supporting social enterprise activity in this way:

- A relatively large proportion of organisations drop out before they reach the stage of being considered for the Venture Fund Portfolio either because they realise that they are not ready to undertake revenue-generating activity or because the process reveals that their enterprise proposition isn't feasible. However, NESsT research has demonstrated that participation in the process delivers significant benefits for such organisations enabling them to build their capacity to operate effectively.

- Charities and other not-for-profits tend to expect a lot of hand-holding but the model that works best is training, facilitating and supporting organisations to do the necessary work themselves.

- Support doesn't always need to be intensive, one-to-one and tailored to particular organisations. Resources targeting a particular phase of development can be designed for use by a variety of organisations.

- Working with teams, rather than individuals, helps social enterprises establish themselves as viable organisations from an early stage.

- Translating resources into local languages extends the support organisation's reach and strengthens its ties with the wider stakeholder community.

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NESsT: A systematic approach to growing social enterprises

NESsT grew out of the vision of Lee Davis and Nichole Etchart, two researchers on sustainability in Civil Service Organisations (CSOs) in Central Europe in the early '90's. NESsT combines "the tools and strategies of business entrepreneurship with the mission and values of nonprofit entrepreneurship". In practice this has led to the development of a systematic approach to identifying organisations with potential and engaging them in step-by-step process of investment preparedness and, later, organisational development.

From the entries to their local competitions, NESsT choose 10-15 organisations based on a number of criteria, one of which is having a "proven leadership and management team". "We always work with teams rather than individuals or ideas," says Loic Comolli, NESsT's Director of Client & Investor Relations. "We have applicants put together a committee that includes the executive director, programme managers, the financial person and one or two board members, for example. That way you have the core of an organisation right from the start."

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Organisations that make it through NESsT's due diligence process begin a 1-year programme leading to investment readiness. They use tools developed by NESsT to carry out feasibility studies and conduct a business planning process. Although in the past these tools were available only in English, over the last five years NESsT has begun to translate them into local languages. The advantage? According to Eva Varga, NESsT's Enterprise Development Director in Europe, "Translating the tools has allowed NESsT to reach out to a larger number of organisations, plus stakeholders, support organisations, local government and policymaking bodies. It gives us a broader reach."

This culminates in the applicant presenting a business plan defence in front of an "Investors Circle", assembled by NESsT. "The tools really teach the organisations what they need to know," says Comolli. "Self-assessment with coaching is key."

Only organisations that successfully complete the 1-year process are eligible for acceptance into the NESsT Venture Fund Portfolio, although not all are chosen. Those who are receive between three and five years of implementation support, training, mentoring and approximately $10,000 per year to follow through on their business plans. The award is reviewed annually and renewed only if the organisation hits milestones in its business plan.

Portfolio organisations work with NESsT's own performance management tool to measure impact and track development in four areas using both qualitative and quantitative data: enterprise performance, social impact, financial sustainability and organisational sustainability. Clear exit strategies are defined when the organisation enters the portfolio. These are based on enterprise goals (such as profitability), organisational sustainability, diversified financing sources or, alternatively no longer benefiting from a relationship with NESsT or consistently failing to meet mutually agreed benchmarks. Five years is usually the maximum commitment of NESsT Venture Fund, though in some cases NESsT has awarded longer support.

Case 3. Deploying a range of support techniques

A third approach, employed by the Noaber Foundation, demonstrates the principle of embracing a variety of kinds of social enterprises while employing tailor-made support methods to meet their needs. Thus, Noaber Foundation is less concerned about types and definitions of social enterprise than about the potential overall social impact of their investment and the way they are structured. Noaber Foundation aims not at creating bigger organisations but at moving social enterprises along the Venturesome spectrum of social enterprises toward greater financial sustainability using a variety of methods. This approach has some key features:

- Systematic diagnosis of organisational needs is key to providing the right form of support at the right time. Assessing projects at the planning stage, then re-assessing them whenever they require follow-on funding, allows Noaber Foundation to deploy a range of support strategies effectively.

- Having a range of financing mechanisms to draw from — grants, risk-bearing loans, equity, venture capital investment — means that support can be precisely tailored to need. Neutrality about those means allows Noaber Foundation staff freedom to advise the Board of the foundation the one they know will be most effective.

- Organisations don't necessarily know what they need or what their potential for self-financing is. Fund investment managers require diagnostic expertise and a thorough knowledge of various funding strategies to guide organisations in the right direction.

- Noaber Foundation accepts that some well-developed organisations may continue to need grants because their business model doesn't allow for enough revenue to pay back loans or attract risk-bearing capital.

- By investing in specific sectors, Noaber Foundation enables networking and knowledge sharing between investees.

Noaber Foundation: many means toward a single end

With a heterodox approach to funding and finance, the Noaber Foundation demonstrates a fluid approach to supporting development in social enterprises.

Although Noaber Foundation "expects a result-oriented and enterprising attitude" from all the projects it works with, it accepts that there is actually a spectrum of social enterprises needing different things at different times in their development. To address this range of needs, Noaber Foundation delivers support through three "units": Noaber Philanthropy, which provides grants, and Noaber Ventures, which supports social purpose organizations with either social venturing, or venture capital through its impact first or finance first 'legs'. Working in close cooperation, the three legs of the Noaber Foundation are able to provide support to social enterprises through a variety of mechanisms including grants, loans, subordinated loans, loan guarantees, equity and venture capital.

Director Pieter Oostlander explains: "When organisations approach us, we use Venturesome's spectrum of organisations to help us assess their viability and diagnose their support needs. We try to encourage them to move up the spectrum, but it's not a growth model in that sense. Some projects will develop along the spectrum, but some are

ORGANISATIONS DON'T NECESSARILY KNOW WHAT THEY NEED OR WHAT THEIR POTENTIAL FOR SELF-FINANCING IS. FUND INVESTMENT MANAGERS REQUIRE DIAGNOSTIC EXPERTISE AND A THOROUGH KNOWLEDGE OF VARIOUS FUNDING STRATEGIES TO GUIDE ORGANISATIONS IN THE RIGHT DIRECTION.

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— or arrive at — a certain part of the spectrum and stay there."

The Noaber Foundation doesn't have a set mechanism for identifying milestones as the projects move up the Venturesome spectrum from "charity with on-mission trading and contracting" to "business generating profits for charitable spend" (see the Venturesome diagram). However, they have developed a tool for assessing when a project has reached the end of the spectrum and become a "commercial enterprise". This is a detailed questionnaire, developed in collaboration with the University of Nijenrode, that indicates how social or commercial an enterprise is.

With an array of support options to choose from, Noaber Foundation selects the best way to provide help at a given time in a project's development trajectory. The ability of Noaber Foundation personnel to choose correctly implies a subtle understanding of the project, the organisation and the context in which the organisation is developing.

For example, a Dutch organisation that works to lower re-offending rates approached Noaber Foundation with a request for investment. Noaber Foundation had been providing grants to this group for several years and encouraging a more businesslike approach. To Noaber Foundation's delight they now came back to their donor with their very first strategic business plan. Noaber Foundation reviewed the plan and realised that although the organisation would be able to generate substantial revenue through subscribing "friends" they would still need to repay the loan using money from donations. In this instance, Noaber Foundation decided to provide support in the form of a further grant with the understanding that the organisation was now on the path to self-sufficiency.

Noaber Foundation also offers another form of non-financial support through "leveraging" — creating synergies between the diverse organisations it supports. Potential for leveraging is one of Noaber Foundation's criteria for selecting new projects and Noaber Foundation programme and investment managers are encouraged to foster synergies and promote networking wherever possible. This may be within a given portfolio or between the portfolios of the Noaber Foundation, Noaber Ventures and Noaber Philanthropy. A glance at Noaber Foundation's "Leverage Map" shows how intricately the organisations are connected. This is part of a conscious strategy of enabling exchange and learning between portfolio organisations within the same sectors.

Noaber Foundation's Leverage Map

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PART 2: DEVELOPING SUPPORT APPROACHES

THE INTERNATIONAL CLIMATE FOR SOCIAL ENTERPRISE IS MORE FAVOURABLE TODAY THAN IT WAS EVEN FIVE YEARS AGO. THE GENERAL PUBLIC ARE MORE AWARE AND MORE SUPPORTIVE OF ENTREPRENEURIAL ACTIVITY FOR SOCIAL GOOD, EVEN WHEN THE AUTHORITIES ARE LAGGING BEHIND IN THEIR THINKING.

Case 4. Establishing an environment for social enterprise

In some countries in Europe, the development of social enterprises is still restricted by an unfavourable policy climate and establishment and growth is blocked by substantial regulatory hurdles. Partners in Ideas, our fourth example, is working to establish an appropriate legal definition that will permit Latvian social enterprises to grow, generating more income for social purposes. Partners in Ideas is mostly concerned with the legal definition of social enterprise. Its experience highlights several key factors relating the growing and scaling social enterprises in places where regulation is an obstacle:

- The international climate for social enterprise is more favourable today than it was even five years ago. The general public are more aware and more supportive of entrepreneurial activity for social good, even when the authorities are lagging behind in their thinking.

- There is support available for those who are struggling to gain legal recognition for social enterprise: Partners in Ideas has been able to reach out to local supporters and international organisations such as Deloitte for help and legal expertise.

- Partners in Ideas has worked with the government to change regulations, but it is also forging ahead to set a precedent for running a social enterprise without waiting for the government to change regulation.

Partners in Ideas: Removing barriers to growth

The idea of social enterprise has spread across the European Union in recent years, becoming generally more acceptable and even popular in a variety of national contexts. Latvia is no exception: "Ten years ago, an NGO couldn't do economic activity here," says Sabine Sile, director of Partners in Ideas Fund, an independent Latvian foundation. "Even five years ago, it was looked on with suspicion. Now people are more educated about these issues."

Partners in Ideas is pioneering the use of social enterprise as a means of raising money for good causes in Latvia. It has opened one of the country's first charity shops, Otra elpa ("the charity store") in Riga. Otra elpa operates much like other charity shops, accepting donations from the public and re-selling them from a shop staffed by volunteers. The income is used to support a number of charitable initiatives including a programme for bringing new teachers into schools, a legal aid clinic and a venture philanthropy fund.

So far, so familiar. "Our problem," says Sile, "is that we don't have a legal status for what we're doing." Currently, Otra elpa is trading as "an NGO doing economic activity." But, under Latvian law, once their income exceeds €10,000, the charitable enterprise will be taxed exactly like a business, paying 21% VAT on income from any sales, including that from the sales of donated goods.

"People agree that the system is unfair," says Sile. "We are paying VAT on donations! Right now we are working with Deloitte, the auditors, and a local firm who is offering their services pro bono to try to come to some agreement with the government, but the revenue people have showed no interest in adjusting the system or helping us come up with reasonable solutions."

Otra elpa is not the only charity shop in Latvia. The Red Cross runs several but, as a large, well-funded international organisation, they simply pay the full tax. Partners in Ideas, with limited resources and an eye on the future, is preparing to challenge the status quo.

Sile explains, "We've submitted a proposal to the State Revenue Service and are awaiting a written response. At the same time, we decided to act as opposed to waiting to see the results from lobbying. Together with the auditors we've developed a system that more closely resembles the reality of our work and will implement it as of February 1st, 2010, with or without the agreement of the State Revenue Service."

In practice this means that Otra elpa has established a "Donations" category in the cash register of their shops. Each category of goods has been assigned a base value (€1 for a pair shoes, for example). When Otra Elpa sells a pair of shoes for €3, the sale is entered in two transactions: €1 as a base value for the shoes and €2 as a donation.

"We know that we can make a strong case for doing this and can back it up with multiple auditors' statements. We'll be creating a precedent that will not only enable us to operate more effectively, but also provide a more favorable model for the existing and new charity shops operating in Latvia."

PART 3

COMMON DILEMMAS AND CHALLENGES

EVPA members are diverse, as has been demonstrated. However, our research indicated that the focus of concern on how established social enterprises may best be supported to grow to maturity has given rise to a number of common dilemmas and challenges for EVPA members, outlined below:

Founder syndrome

Related to the issue of building organisations, there's a difficult question about whether the figure of the founding social entrepreneur (or in some cases the entrepreneurial team) is always the right one to lead the growing organisation. In the for-profit world, the founder often exits when the business takes off but, in the words of one interviewee, "social enterprises are not supposed to observe this law of the jungle".

For many of the fund personnel who work with them, this can lead to difficulties as the organisation develops. "I think the quickest way to move social enterprises forward is to get rid of the founders," said one consultant, half joking. In this sector, over-emphasis on the entrepreneur can create a situation where reliance on a single individual can eventually thwart organisational growth. As one interviewee put it: "Start-up types aren't always able to manage larger organisations."

Attracting managerial talent

Finding the right people to fill top-level roles in a growing social enterprise is a challenge. As mentioned before, the social entrepreneur or entrepreneurial team that founds an organisation or initiates an idea may not ultimately be the right people to lead a larger more complex organisation. Even if the founders stay in place, new talent needs to be brought in as systems and programmes are developed. Outside consultancy advice and support can help fill gaps in expertise, but not indefinitely. In the longer term, business know-how needs to be a part of the organisation. Just as the inspirational social entrepreneur is key to the early days, the team is crucial as the organisation scales up.

As one of our interviewees put it, "It's hard to attract talent. Unless people have already made money, they won't go to work in social enterprise. Education is needed to get good applicants coming through. There's a role for business schools in promoting this area. How many graduates automatically go and work in a bank because they fear they won't be able to make money working for a social enterprise?"

Appreciating the need for support over the longer term

If they are to succeed, social enterprises are likely to need financial and non-financial support for significant periods of time. Seasoned funders like Impetus speak in terms of an 8-10 year commitment. NESsT works with organisations for a year, and then offers them the chance to win finance for a 5-year period. In countries or regions where a variety of funds operate with an emphasis on different points in the organisational life cycle (for example, on individual entrepreneurs or scaling and replication) there may be an opportunity for funds to cooperate and pass organisations from hand to hand as they reach different stages in their development cycle. The successful social enterprise SpeakingUp has been supported by two funds already (Impetus and Venturesome) and is now onto its third (CAN-Breakthrough).

Rethinking the exit strategy

A greater awareness of the need for longer-term support raises the question of how to handle the end of the funding relationship. The exit strategy is an important feature of venture capitalism and venture philanthropists of EVPA often still feel the need to create

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IF THEY ARE TO SUCCEED, SOCIAL ENTERPRISES ARE LIKELY TO NEED FINANCIAL AND NON-FINANCIAL SUPPORT FOR SIGNIFICANT PERIODS OF TIME.

PART 3: COMMON DILEMMAS AND CHALLENGES

IN VENTURE CAPITAL, INVESTORS ARE CONCERNED WITH THE FINANCIAL RETURN ON THEIR INVESTMENT, BUT IN VENTURE PHILANTHROPY, FUNDERS ARE CONCERNED THAT THE SOCIAL ENTERPRISE CONTINUES TO PROSPER AND GENERATE SOCIAL IMPACT IN THE FUTURE.

a "story" around funding relationships, with a beginning, middle and end. Yet they are still coming to grips with the different character the exit strategy assumes in a philanthropic context. Experience has taught them that the way they make their exit from the funding relationship influences the development of the social enterprise. In venture capital, investors are concerned with the financial return on their investment, but in venture philanthropy, funders are concerned that the social enterprise continues to prosper and generate social impact in the future.

Funders are rightly reluctant to push their projects out the door too early, risking the loss of their investment. Impetus, for example, "leaves the door open"' according to Daniela Barone Soares, providing a small amount of funding for two years after organisations "graduate". But with no wish to create open-ended dependent relationships, the question remains: How can the exit strategy form part of the processes that make social enterprises more resilient and ready to move on to the next stage of their development? Alter, Shoemaker, Tuan and Emerson explored this question some time ago in their analysis of different exit strategies employed in the nonprofit sector[17]. More recently, Roob and Bradach have suggested that government involvement could signal a natural exit point for funders[18]. In the case of SpeakingUp, mentioned before, funds solved the exit problem by "passing the baton" to fellow funders.

Taking governance seriously

Poor governance practice hampers growth in social enterprises, especially those that develop from or alongside charitable organisations. While funds and support organisations have traditionally focused on developing the social entrepreneur or CEO, there is increasing appreciation for the role of the board as organisations mature and become more effective as enterprises. As Nat Sloane of Impetus commented in an EVPA workshop, "Impetus has moved from a main interest in the CEO of the social enterprise. The board needs to be an engaged strategic part of the process." In other words, EVPA members, like others working in the field, are beginning to tune in to the importance of the governing board to the growth of many social enterprises.

This is an important insight for many EVPA members who come from business backgrounds where the role of the board is very different than it is in third sector or "hybrid" organisations. A good board can support the CEO, provide continuity and carry the lessons from one stage of growth to another, helping ensure that the learning the organisation does with venture philanthropy partners is not lost once their support has ended. By developing the board, a social enterprise can establish a strong core that serves it well as it grows and changes. Board development can help overcome resistance to change in charitable organisations seeking to become more entrepreneurial; it can help it embrace a future that includes a lasting commitment to the principle of earning income.

The study of governance in social enterprises is still in its early stages, and there are questions about which governance structure is the most appropriate for these organisations[19]. However, most agree that governance has a profound influence on social enterprises as they develop, regardless of which governance model they adopt.

Struggling with impact measurement

EVPA members we interviewed mentioned the difficulty of getting social enterprises to engage in impact measurement. It was believed that the reluctance could be a cultural issue: small organisations and ones that have been operating in the charitable field,

[17] Alter, K., Shoemaker, P., Tuan, M. Emerson, J. (2001) When is it Time to Say Goodbye?, Virtue Ventures.

[18] Roob, N., Bradach, J. (2009) Scaling What Works: Implications for Philanthropists, Policymakers and Nonprofit Leaders, Bridgespan Group

[19] Mason, J., Kirkbride, J., Bryde, D. (2007) From Stakeholders to Institutions: the Changing Face of Social Enterprise Governance Theory, Management Decision Vol. 45, Iss. 2, Page 284..

are not accustomed to carrying out measurement. "They don't see the point," as one fund manager told us. Also, they often do not have the resources to devote to impact measurement and are often stretched to deliver extensive reporting which takes away from their time operating the business.

Getting recipient organisations to understand the necessity of measurement and build it into their organisational systems was seen as a challenge by the advisors working with them. In many cases, the push to introduce systems of measurement comes from venture philanthropy donors and funders while the organisations themselves resist. Working together with the investee to develop an impact measurement system that is useful and understandable to all parties was mentioned as a solution to get around the resistance on behalf of the investee.

Most of the funds we spoke to nonetheless expected the projects they funded to establish impact measures of one kind or another. The way the funds did this varied widely. Frequently, different methods were used with different organisations in a given portfolio. "One of the shortcomings is that we have to operate on a case-by-case basis, there's no cohesion," said one fund manager. Criteria for impact and performance were typically established during the process of due diligence, according to interviewees. Some funds, especially those like Voxtra who look for organisations who already have a sound business model in place, look for a good measurement regime as an indicator of fitness for investment. Others, like Impetus and UnLtd, who typically work with organisations at an earlier stage in their development, will help establish measures as part of their non-financial development work.

There was a general feeling on the part of interviewees that they ought to be doing more impact measurement, though more than one interviewee was reassured by David Carrington's statement that "you can't measure everything". Members also appreciated Daniela Barone Soares's candid remark that it's "not a magic bullet and it's a pain in the ass, but it's worth doing." Impetus, Bridges, New Philanthropy Capital, Acumen and Noaber Foundation were frequently mentioned by interviewees as leaders in the field of impact measurement.

One interesting move in the area of social performance measurement is the collaboration between three EVPA members - dob Foundation, Noaber Foundation and Peter Scholten - to develop a Social e-Valuator, setting up a social enterprise with the same name. Their methodology is based on Social Return on Investment (SROI). Another EVPA member dedicated to SROI is the SROI network in the UK. EVPA members have expressed a desire to achieve standardization in the field of social performance measurement, although the challenges involved are also acknowledged.

EVPA MEMBERS HAVE EXPRESSED A DESIRE TO ACHIEVE STANDARDIZATION IN THE FIELD OF SOCIAL PERFORMANCE MEASUREMENT, ALTHOUGH THE CHALLENGE INVOLVED ARE ALSO ACKNOWLEDGED.

PART 4
CONCLUSIONS

This report has presented the findings of an investigation into definitions of social enterprise and looked at some aspects of the practice of EVPA members supporting social enterprises. It has shown that, despite the efforts of researchers, practitioners and policymakers, no satisfactory definition for social enterprise has so far been determined. This is largely due to the fragmentation and diversity of the sector.

Research with EVPA members shows that their definitions of social enterprise vary widely, as you would expect from such a diverse group. EVPA has adopted a broad definition to identify a social enterprise as an organisation that focuses on *achieving social impact, applying market-based solutions to address public sector and market failure in innovative ways.* This definition takes into account the diversity of ways to define social enterprise and the various approaches to supporting social enterprise among EVPA members, while attempting to move the debate further towards developing common grounds. EVPA aims to encourage social investment by fostering the development of common platforms to exchange learning. It also seeks to increase the supply of viable social enterprises while promoting demand for their services in Europe and beyond.

Our research indicates that the diversity of the social enterprise sector is not preventing EVPA members from engaging with different kinds of social enterprises or dampening their enthusiasm for working in this field. They support a variety of different kinds of social enterprise and engage in a broad range of support activities on their behalf. Indeed, this study identified a number of sub-types used by EVPA members to define social enterprise. Accordingly, EVPA members define social enterprise as organisations that fit into any of the following typologies:

1. Are led by a social entrepreneur, applying entrepreneurial solutions to solve social problems;

2. Grow up within, or alongside charities, usually with the purpose of supporting the charity with trading activities;

3. Trade extensively with the public sector;

4. Are private sector businesses with a social purpose;

5. Form part of a broader, integrated programme for social benefit;

6. Share a legal form recognized in individual countries as social enterprise.

We recognise that this list of sub-types is not exhaustive and that more systematic research is needed to extend and further develop the categories. Therefore, to facilitate learning and knowledge transfer about social enterprises, the report suggests advancing the study of sub-types of social enterprises that can then be compared and studied.

Despite the diversity in EVPA, it was possible to begin to categorize some of the ways EVPA members are offering support, and by doing so to draw out points of learning from their experience. Our case studies illustrated four distinct ways of supporting social enterprise used by VP funds:

1. VP funds that **focus on social entrepreneurs** can support the development of financially sustainable social enterprises. These VP funds defined social enterprise as organisations **led by social entrepreneurs**, providing an entrepreneurial solution to social needs.

EVPA AIMS TO ENCOURAGE SOCIAL INVESTMENT BY FOSTERING THE DEVELOPMENT OF COMMON PLATFORMS TO EXCHANGE LEARNING.

PART 4: CONCLUSIONS

AS SOCIAL ENTERPRISE BECOMES AN INCREASINGLY IMPORTANT PLAYER IN TODAY'S SOCIETY, THE ROLE OF VENTURE PHILANTHROPY SHOULD BE TO HELP IT GROW AND PROSPER. THE ULTIMATE GOAL OF BOTH SOCIAL ENTERPRISE AND VENTURE PHILANTHROPY IS TO GENERATE SOCIAL IMPACT.

2. VP funds that help **charities and other not-for-profits set up social enterprises** with revenue-generating activities, , enabling them to better achieve social change. These VP funds focus on social enterprise as an auxiliary, **revenue-generating activity** for charities **to become less dependent** on external fundraising.

3. VP funds that provide a **range of support mechanisms** targeting the specific organisational needs of the investees can help social enterprises move towards greater social impact and financial sustainability. Such an approach is facilitated by the **focus on specific social sectors**. These VP funds are **agnostic about the legal form** of social enterprise and prefer to focus on organisations with potential to generate social impact.

4. VP funds in markets that **lack institutional support** for social enterprise, work to **promote awareness** and understanding of social enterprise practice and create a favourable environment. These VP funds are struggling to achieve legal recognition for the social enterprise as a distinct asset class.

Our case studies generated several learning points from each way of supporting social enterprise. Additionally, we found that VP funds are:

- evolving their approaches as they gain more experience with the sector and as the sector itself changes;

- diversifying their practice to meet the needs of different kinds of social enterprises at different points of their development cycles;

- responding to the needs of social enterprises as they mature into more established organisations.

The report also provides evidence of some dilemmas and challenges shared by the EVPA fund members who took part in our research. They demonstrate that it is possible to identify common stress points in practice even when the social enterprises, as well as the funds that support them, are so diverse. These can be seen as emerging from a trend developing across the sector: addressing the need to build stronger social enterprises that achieve greater social impact.

EVPA believes that social enterprise is a key target of VP activity moving forward. Both VP and social enterprise are active at the intersection of the for-profit and non-profit sectors and readily mix professionals and practices from both. As social enterprise becomes an increasingly important player in today's society, the role of venture philanthropy should be to help it grow and prosper. The ultimate goal of both social enterprise and venture philanthropy is to generate social impact.

APPENDIX

List of interviewees

Interviews conducted on behalf of the EVPA for the report by Marta Maretich.

Interviewee	Role	Organisation	Country
Anheier, Helmut	Dean, Hertie School of Governance	Heidelberg University	Germany
Balbo, Luciano	President	Oltre Venture Capital	Italy
Blakebrough, Adele	Chair, Breakthrough Social Investment Fund	CAN-Breakthrough	UK
Comolli, Loic	Director of Client & Investor Relations	NESsT	Hungary
Dale, Pål	Managing Director	Voxtra	Norway
Danton, Katherine	Head of Research	UnLtd	UK
Danys, Mindaugas	Director	Civic Responsibility Foundation	Lithuania
de Saint-Pierre, Benedicte	Présidente du Directoire	Business Angels des Cités	France
Estill, Mike	Associate	Health Launchpad	UK
Hafenmayer, Wolfgang	Managing Partner	LGT Venture Philanthropy	Switzerland
Jenkins, Jonathan	Director, UnLtd Ventures	UnLtd	UK
Joss, Tim	Director	Rayne Foundation	UK
Kingston, John	Founder/ Director	CAF Venturesome	UK
Kuusk, Mart	Managing Director	Good Deed Foundation	Estonia
McGrath, Mary	Director of Major Gifts	Warwick University	UK
Muirhead, Andrew	Chief Executive	Inspiring Scotland	UK
Nicholls, Alex	Lecturer in Social Entrepreneurship	Skoll Centre for Social Entrepreneurship	UK
Peeters, Liesbet	Managing Director	Lapiluz	Belgium
Oostlander, Pieter	Director	Noaber Foundation	Netherlands
Pepin, John	Independent Consultant	JPA	UK
Rukanova, Sevdalina	Interest Group Senior Officer	European Foundation Centre	Belgium
Selian, Audrey	Director, Artha Initiative	Rianta Capital	UK
Sile, Sabine	Director	Partners in Ideas	Latvia
Stahl, Erwin	Managing Director	BonVenture	Germany
Varga, Eva	Enterprise Development Director in Europe	NESsT	Hungary

## About the Authors

Marta Maretich

Marta Maretich is a researcher, writer and independent consultant specializing in governance and organizational development and learning. Her practical experience spans all three sectors and she frequently works on projects that cross traditional sector lines.

Marta began her career in the US as an editor for Jossey-Bass Inc., working to develop the first publishing series aimed at nonprofit sector organisations. She was editor of Board Leadership, John Carver's governance newsletter. In the UK, she went on to work closely with the National Council on Voluntary Organisation's Governance and Leadership Programme to develop a range of practical governance, leadership and organizational development resources.

Marta is the co-author, with Tesse Akpeki, of Living Policy and Building Strategic Diversity, upcoming from NCVO, and author of the Governance Hub's web guide to the Code of Good Governance. A trained facilitator specializing in strength-based approaches, she also works with teams and organisations to tackle developmental and strategic challenges.

Margaret Bolton

Margaret Bolton is an independent consultant who specializes in voluntary sector policy. Before going freelance she was Director of Policy and Research at NCVO. She was seconded from this post to work in the UK Prime Minister's Strategy Unit. Since becoming a consultant in 2002 she has undertaken policy and research projects and produced reports on a range of topics including: voluntary sector added value; social innovation; social investment and capacity building. She is a member of the Capacitybuilders board.
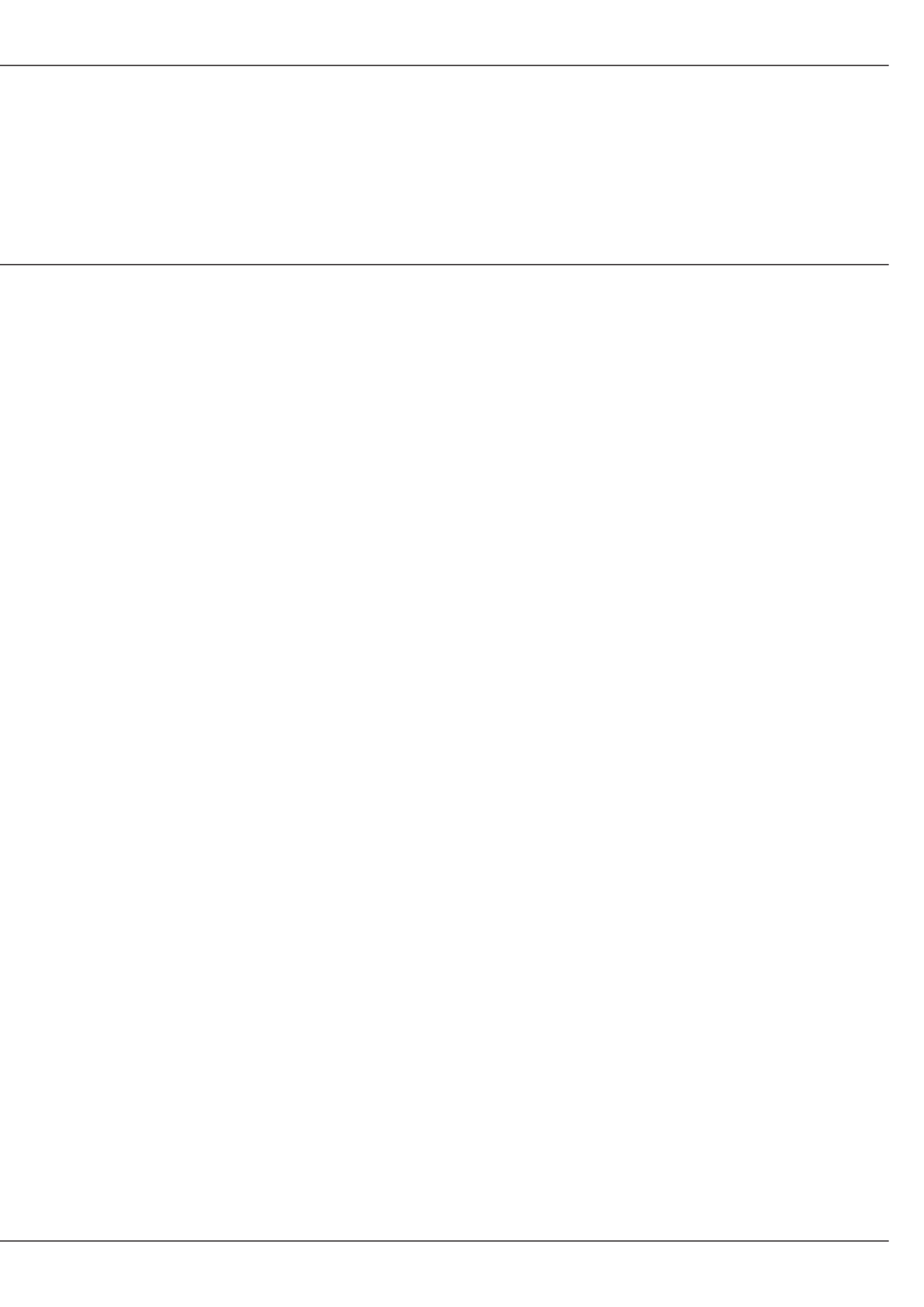
EVPA is a fast-growing membership association supporting and promoting venture philanthropy across Europe. EVPA supports its members by providing a forum for mutual learning, data and research on venture philanthropy, and training programmes on topics relevant to all stages and activities of a venture fund.

The EVPA Knowledge Centre is the hub for European knowledge and thought leadership on venture philanthropy. Its mission is to:

1. Provide EVPA members with resources and knowledge to

assist them in the development of strategy and best practice .

2. Provide EVPA / VP field with legitimacy to:

- Attract professionals/ funding;
- Inspire academic research;
- Engage in public relations.

3. Connect practitioners, academics and advisors around field

know-how.

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