Social Economy, Social Enterprises, and Social Capital

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Introduction

• Confusing concepts, ill-defined and used loosely (multi-faceted, multi-dimensional. No common agreeable definitions, difficult to measure, and but are closely related.
• Used interchangeably reflecting historical, geographical and cultural reasons (social economy, social enterprises, non-profits, the third system/sector, micro-credits).
• Social economy and social enterprises are a form of non-governmental economy outside the business and the public, which can be non-profit making or limited profit making; profit sharing or non-profit sharing among the board members.
• Represent a paradigm shift in social innovation – challenging the governance, operation, finance, and objectives of the traditional third sector and business sector
• Social capital indicates the quality of relationship between people and organisations. We often assume that successful SC and SE require SC -- collaborative and mutual trust social network.
Social Economy

• Failure of the state welfare (bureaucratic), market economy (inequality) and third sector (dependent on government) to address the needs of the poor. Seeking for new, alternative and creative solutions to address social needs, rather than to depend on government and charity (self-sustaining basis through fee charging)

• The fourth sector -- social enterprises, social economy, and rebuilding social capital – a new alternative to social issues (social and environmental challenges) and assist vulnerable population, more responsive, adaptive, and innovative to local needs (local community development). Harass the economic activities to achieve social goals.

• European tradition – third system/ sector; historical strong traditions of cooperatives which share profits; Place a limit on profit distribution. Cooperatives, credit unions, community shops, micro-credit, community business.
• A mutual insurance company is an insurance company owned entirely by its policyholders. Any profits earned by a mutual insurance company are rebated to policyholders in the form of dividend distributions or reduced future premiums. 1/3 Europeans are insured by mutual insurers against the risks of illness or old age, 140 million citizens are members of cooperatives, 7% of Spain’s GDP is produced by cooperatives and labour-owned companies. Italian social economy accounts for 12% of the GDP

• HK: Rural cooperatives, credit unions, yee hui; recent thriving development of social enterprises

• Social work role in economic involvement (non-professional? To professional activities)
Features

- **Social goals** over profit maximization (limiting distribution):
- **Community improvement** (market and state failure); consider external costs (social cohesion, environment)
- **Work activation** of the vulnerable groups (work skills, integration with labour market); encourage productive behaviours; reduce moral hazards
- **Local / community development**/ capacity building/ community-based (micro-credits – small loans to support local initiatives) -- **building social capital** (positive community relationship between stakeholders/ trust)
- Social economy organisations – empowering users (marginalized or excluded); Not only meeting needs (consumer empowerment) but civic engagement and participation/ advocacy. **Active citizenship**
- A strong tradition of democratic participatory governance/ procedures (inclusion of users in decision making) – empowerment versus managerial approach; A decision making power not based on capital ownership (democratic governance structure) – **social ownership**
- Funding from public, fees and donations
Development

- Enabling environment building (public recognition, legal, funds for start up, knowledge, sustainability, preferential policy <public procurement, premises and land>)
- Vital part of the economy and social system
- Neglect (not area of study in economic theory and business schools, and schools of social work): failure to recognize its importance and contribution
- Governance Structure: marketing, finance and HR management, incentives.
- Threat of commercialization
Social Enterprises

- Failures of the traditional third sector and business to integrate the disadvantaged population into work.
- SE as catalysts for revitalising disadvantaged communities through employment and countering welfare dependency (OECD 2003).
- A SE is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the businesses or in the community rather than being driven by the need to maximise profit for shareholders and owners. **Triple-bottom line** – social mission, financial and environmental bottom line.
- UK definition – enterprises involving provision of goods and services to a market and with 50% or more of income coming from trading, where trading include incomes from contracts, or service level agreements with public bodies (purchase of services). 25-50% as emerging SE. (DTI, 2004).
Features

– Part of the social economy: a project, a company, a NGO/charity, a private business, social entrepreneurship?
– Profit making (limited distribution of profit) or non-profit making (charity registration)
– **An income generating business**, supporting core social services (hotel, hospital, university). Earned income strategies to generate revenue to finance their social missions
– **Work integration** – employment of the disadvantaged.
– **Self-management** (active participation of stakeholders/users; decision not based on capital ownership); use of volunteers + minimum paid staff.
– A high degree of **economic risk** (loss making is common), similar to other SME ventures.
– Production and **delivery of human services** (care giving and job training) (Gonzales, 2006).
Continuum
Mainstream business (fees)  Economic sustainability

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<th>Socially responsible business (CSR)</th>
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<th>Social economy (cooperatives)</th>
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Social enterprises (fees, fair trade, ethical investment)
Social firms: operate in the market, competing with business sector for contracts; community development (housing, job creation, micro-financing, fair-trade)

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<th>Public services (tax financed)</th>
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| Traditional charity (donations and giving)  social sustainability |

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Social Capital

• OECD defines **SC as the networks together with shared norms, values and understandings that facilitate cooperation within or among groups**. Successful business collaboration depends on mutual trust rather than formal contract agreements.

• Similar terms: social cohesion, community building, social harmony, solidarity, communitarianism, partnership, active citizenship, volunteering. is the **connectivity** in society.

• It is the **quality of relationships** between individuals and organisations, a **resource** that can facilitate **coordinated actions for mutual benefits**

• Can be found in cooperatives, social enterprises, community economy, community development projects. Exchange of knowledge/ information, mutual aids, volunteering, collective actions, developing a broader identity and solidarity.
• **SC is one of the indicators on well-being** (OECD, 2011). People with extensive and supportive networks have better health, tend to live longer, and are more likely to be employed. At society-wide level, social connections can generate shared values – trust in others and norms of reciprocity – associated with a lot of good outcomes (society-organization-individual levels) including economic growth, democratic participation, health, education, employment, and crime.

• Modernisation – social divisions, inequalities, threaten social cohesion, and eroding trust in public institutions and weakening social connections.

• In general, vulnerable populations, the old, the poor and the less educated have weaker social support networks **(social inequalities)**. SC, one of the dimensions **on new social class classification in UK** (Resources/capital: economic, social and cultural). Around 15% of the population lack any significant amount of these capitals **(BBC, The Great British Class Survey 2013)**.
Types

- **Bonding**: reinforce links between people of similar background – focus on strengthening already existing relationships (existence of trust). Inward-looking and exclusive (glue)

- **Bridging**: relationships bringing people together from different backgrounds. Outward-looking, promotes social interaction and association between heterogeneous groups (WD40)

- **Linking**: linking people across different societal levels (the powerful and the powerless)

- Too much bonding in the absence of bridging social capital can lead to “in-group/out-group” dynamics (inward-looking), leading to the exclusion of those outside the bonding group. It can also foster values that are detrimental for society (triads, extreme religious groups, racist groups).

- Government role – encouraging volunteering, charity donations, civic engagement.
Relation of SC to SE

• Fukuyama (1995)’s study on trust:
  – Virtually all economic activity…. is carried out not by individuals but by organisations that require a high degree of social cooperation.

• Thus, mutual trust and common sense of purpose can drive knowledge/expertise information sharing/exchange, reduce transaction costs (written contracts, negotiation, coordination, insurance), lower turnover, dropout and failure.

• Democratic management: social ownership, social cooperatives (bonding SC); empowerment

• Ethical trading, consumption, fair trade (trust)

• Encourage collaboration, not competition; volunteering not paid staff

• Positioning: Reconcilating welfare project and SME business

• Community-based/support critical (brand name and local track record)
Relating Social Capital to Social Enterprise and Social Economy (OECD, 2009)

• One of the key characteristics of social enterprises – businesses which seek not to maximize profits, but to provide a service to society by trading in the market – is the strength of their relational elements. The quality of the services they provide derives essentially from the rich inter-relationships that their various stakeholders enjoy. An individual involved with a social enterprise is typically not playing a single role, for example as an investor, customer, employee or client, but has an active voice in its direction and how it fulfills its mission. This richness extends to the relationships that social enterprises have with other organisations, such as public authorities or other businesses. They have a propensity to build networks, whether to exchange information, to improve their practice, to dialogue with government, or to address new challenges – for instance by setting up new enterprises. This means that they need external support of a specific type.
• SC can facilitate SE development. SE can also build SC or de-capitalization (become formalized, commercialised and bureaucratic).

• Social economy can be an effective channel to build social capital – create and disseminate trust (ethical markets/consumption); Collaboration and partnership between sectors; Integration of cross-cutting issues (environment, welfare, education, employment, and health)
FairTrade

- Fairtrade is a system aimed at offering the most disadvantaged producers in developing countries the opportunity to move out of poverty by creating market access under beneficial rather than exploitative terms. The objective is to empower producers to develop their businesses and wider communities through international trade. Fairtrade is defined as “a trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions and securing the rights of marginalised producers and workers, especially in the South.
Promoting Community Partnerships

• Cultural change:

• Community partnership is central to social and public programmes (new governance requirement) – a type of social capital. Sharing of resources (information, brand names, human resources, connections, finance, risks, incentives) involving cross-sector partners for joint up actions address cross-cutting social issues. **Partnership governance and culture** – collaborative advantages, inter-dependency, coproduction of services (joint design, implementation/ production and evaluation)

• **Trust-building process:** SC is not a quick fix for many of vexing problems society faces. It is a means to an end, not an end in itself.

• Developing SC across sectors, groups, professions and organisations is extremely time-consuming and process-intensive, requiring extensive resource investment. One has to recognize the recurring multiple, competitive and conflicting interests in the community.
Role of CIIF

• SE is a cloudy and emerging field (difficult to define precisely); more players are involved; knowledge building and exchange required – developing good practice -- producing cultural change.

• CIIF: A social investment fund, change-making fund, working closely with our partners – producing short-term and long-term impacts on social relationships.

• Building an inclusive society – CIIF projects are platforms engineering different social groups to interact, share, collaborate, and assist – accepting and respecting differences without trying to make others to look, think and act like you.

• CIIF funded social enterprises, if they promote SC (social networks, reciprocity, mutual trust), particularly bridging and linking SC.
References