EUROPEAN

POLICYBRIEF

SOCIAL ENTERPRISES, AN ECONOMIC FORCE FOR BUILDING MORE INCLUSIVE SOCIETIES?: EVIDENCE FROM THE SEFORÏS STUDY

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INTRODUCTION

Social enterprises are organisations that act entrepreneurially through generating revenues from the sales of products or services and that have a primary social mission. Many see social enterprises as having transformative economic and societal impacts, particularly towards the creation of more inclusive societies. Yet others have more negative, sceptical views. To date this debate is surprisingly uninformed by high-quality evidence from a cross-country perspective. This policy brief presents insights into the scale and scope of social enterprises based on the SEFORÏS study - the worldwide largest panel study of social enterprises. The SEFORÏS study is unique in that it provides in-depth, rigorous data and on representative samples of over 1000 social enterprises in seven EU countries (Germany, Hungary, Portugal, Romania, Spain, Sweden, the United Kingdom), as well as China and Russia. Drawing on this unique database, this policy brief focusses on insights into:

(1) **The economic significance of social enterprises** by mapping key indicators such as their revenues, surpluses/profits, productivity, employment generation and growth expectations, and

(2) **Social enterprises' contributions towards social inclusion** by charting indicators such as who social enterprises support, the number of beneficiaries, the scope of employment opportunities they facilitate access to for their beneficiaries, as well as the number of volunteering opportunities they provide.

Methodology

The SEFORIS study of social enterprises was conducted by a team of 30 interviewers and country managers from April 2015 to December 2015. The study is unique in its depth: social enterprise directors were interviewed by trained interviewers for an average of 1.5 hours, additionally they completed a 30 min online survey. The interview and survey instruments incorporated standard validated scales as well as tailored and open-ended questions to ensure the reality of social enterprise was accurately captured. All instruments were developed in English and underwent strict translation-back-translation procedures with cultural 'decentering' (adaptations to the local context). This allowed us to conduct interviews in the social enterprises directors' local language. To ensure data quality a number of checks were implemented: all interviewers underwent one week initial training and participated in on-going bi-weekly reflections, 30 percent of all interviews were listened to and independently rated by a second interviewer, third-party information on data such as employment, revenues and expenses was collected to triangulate the information obtained from the social enterprise director. The use of a range of validated scales and questions (e.g. drawn from other leading survey projects such as the European Social Survey, Eurostat's Community Innovation Survey or the Panel Study of Entrepreneurial Dynamics) helped to minimize bias.

To build representative samples of social enterprises is a challenge because there is no available sampling frame, such as an administrative database or telephone directory, on which one can readily draw to identify a sample. Dedicated legal forms exist in few countries, yet they are not comparable across countries. Furthermore, even in countries were dedicated legal forms exist, many social enterprises opt to incorporate in traditional legal forms that are more easily understood by their stakeholders including customers and/or are more amenable to experimentation. To overcome these sampling challenges, the SEFORIS study adopted Respondent-Driven Sampling (RDS), a methodology widely used in public health and sociological research (Heckathorn, 1997; Johnston, 2013)[1]. RDS was specifically developed to obtain *representative* samples of 'hidden' or 'hard-to-reach' populations, i.e. populations such as social enterprises for which no sampling frames exist and that are not easy to identify[2]. RDS relies on social network theory in combination with a chain referral process. It taps into social enterprises' trusted network relationships to help increase participation. Importantly, trained interviews checked a set of criteria to ensure each respondent and referral was indeed the (director of a) social enterprise. These criteria were:

1. The organization has to engage in some revenue generating activity that involves sales of products/services. The minimum cut-off was set at 5 per cent to accommodate cross-national differences in fiscal regimes.
2. The organization has to have a social mission. The respondent was asked to recount their social enterprises' social mission and trained interviewers rated the mission against a set of criteria using rating scales with defined scale points. This way we sought to minimize reporting bias.
3. The organization has to employ at least one full-time equivalent employee (adding up to a 35hour work week). The rationale behind this criterion was our interest in employer social

[1] Heckathorn, D. D. (1997). Respondent-driven sampling: A new approach to the study of hidden populations. Social Problems, 44(2), 174–199. And Johnston, L. G., Chen, Y. H., Silva-Santisteban, A., & Raymond, H. F. (2013). An empirical examination of respondent driven sampling design effects among HIV risk groups from studies conducted around the world. AIDS and Behavior, 17(6), 2202–2210.

[2] We present here data based on the unweighted sample.

enterprises and in understanding the organizational and market behaviours of social enterprises; rather than focussing on the self-employed.

4. The respondent had to be the director or co-director of the social enterprises.

Evidence and Analysis

(1) The economic significance of social enterprises

Sizable in aggregate terms: In 2014, the 1,018 social enterprises we surveyed generated well over €6 billion in revenue, earned nearly €70 million in surplus/profits, and employed just over half a million people. In all nine countries, revenue generation through sales was *the* most important source of liquidity. The social enterprises financed on average 57 percent of their activities this way. The economic and market presence of social enterprises is arguably larger than often thought.

Very skewed size distribution: A closer look at the social enterprise size distribution (measured by revenues or employment) reveals that there exists a very high degree of heterogeneity between social enterprises overall, across and within countries. In fact, this heterogeneity is most pronounced in Germany and Portugal, where a handful of social enterprises have very large revenues (of over €100 million and €10 million, respectively). For all countries, average values of size are substantially higher than the corresponding median values[3]. The extremes thus clearly matter, and consequently, their omission or a too narrow focus on averages (which is often the case in convenience samples) may well yield flawed extrapolations.

In our sample, the median social enterprise counts between 7 (Sweden) and 24 (UK) employees. In Sweden, the bulk of the surveyed social enterprises were micro-enterprises with 1 to 9 employees (63%); whereas in the UK social enterprises with employees between 10 and 49 represent the biggest group (45%). Overall, volunteer opportunities provided by social enterprises tended to be relatively limited, with one third of the surveyed social enterprises having had no volunteers at all. Employment and volunteering seems to be weakly positively and significantly correlated (0.16; p-value<0.001), suggesting the two can be understood as weak complements, not substitutes. As with employment, the median number of volunteers can vary significantly across countries (3-3.5 in Russia and Sweden versus 15 in China and Romania). Table 1 provides a summary overview of both employment and volunteering opportunities by country.

Table 1: Employees and Volunteers

	Employees			Volunteers		
Country	**Mean**	**Median**	**N**	**Mean**	**Median**	**N**
China	23.85	9	101	108.37	15	101
Germany	4311.70	14	107	8650.04	4	105
Spain	152.15	15	123	44.07	0	122
Hungary	47.69	13	121	95.09	10	120
Portugal	56.98	15.5	112	51.30	10	111
Romania	27.04	12	109	34.04	15	109
Russia	16.89	10	104	16.73	3	101
Sweden	69.34	7	103	159.87	3.5	102
United Kingdom	96.85	24	135	55.51	10	135

[3] The median value separates the higher half of a sample or population, from the lower half. It can be thought of a as the "middle" value of a data set. If the median is lower than the average (or mean) value, the sample or population often contains few cases with very high values.

Large productivity differences: We also observe significant differences in social enterprise productivity (measured as the ratio of revenues over employees) both across and within countries. The median social enterprise in Germany, UK and Sweden heads the social enterprise 'productivity' league table (Table A2 in the Appendix). Even so, the top median productivity level in these countries seem to be far below productivity measured elsewhere, say amongst SMEs at large (for instance in the UK: €42k per job versus €80k per job). The lowest mean and median productivity values were found in Russia and China, a reflection possibly of the relatively recent emergence of social enterprise in these two countries.

Positive, optimistic growth outlook: In all countries, with the exception of Hungary, Portugal and Spain, the overwhelming majority (at least 50%) of social enterprises surveyed report employee growth (an increase in employees in 2014 relative to 2013). In Hungary, Portugal and Spain, 50%, 41% and 33% of surveyed social enterprises, respectively, had experienced no change in number of employees. Overall relatively few social enterprises saw a reduction in the number of employees over this one year time period [overall mean: 16%; min: 2% (China) – max: 26% (Hungary)]. Regarding expected future developments, the surveyed social enterprises tended to express outright positive growth expectations and intentions. Though, as shown in Table 2, again substantial cross-country differences exist. 73% of the social entrepreneurs that we surveyed in China said that they definitely intended to grow their organization in the coming year, and expected to add on average 181 new employees (median: 32), and 1470 new volunteers (median: 13) in five years' time. Such an aggressive take on growth sets China clearly apart from the other eight countries, where the expected increase in employees was positive but more modest (from a median of 3 employees in Romania and Hungary to 9.5 employees in Germany). Overall, the expected growth in volunteers (median: 0 in Germany to 4 in UK) was relatively smaller than the expected growth in employees, which is consistent with the overall strong market-drive of the social enterprises surveyed.

Table 2: Growth Intentions

	Do you intend to grow your organization over the next year? (% share of respondents)					
	Yes, definitely	**Yes, maybe**	**Maybe/ maybe not**	**Not Likely**	**Definitely not**	**Don't know**
China	72	13	7	3	3	2
Germany	78	14	4	3	1	0
Spain	30	43	12	10	3	2
Hungary	37	18	25	15	4	2
Portugal	80	14	2	2	2	0
Romania	53	23	14	7	1	2
Russia	79	17	1	3	0	0
Sweden	76	16	4	4	0	0
UK	65	20	8	6	1	0

(2) Social enterprises contribution to social inclusion

Global patterns, within country specialties: The sheer breadth of primary beneficiaries served by the surveyed social enterprises is extraordinary. Overall, the most common primary beneficiaries include children and youth, families and parents, people with mental and physical disabilities, social sector workers and other social organizations or social enterprises. In Portugal there is distinctly a substantial proportion of social enterprises focused on the elderly (24%); in China on left behind rural communities (25%), and Germany on refugees and asylum seekers (10%).

Not only far-reaching in breadth, but also in numbers: Across countries, the median social enterprise surveyed serves 550 beneficiaries or clients. In Spain and Romania, this median value is smaller, whereas in Portugal, UK and Russia, the equivalent value is 1000 or more.

Table 3: Reach of Social enterprises

	Number of Clients or Beneficiaries		
Country	**Mean**	**Median**	**N**
China	236,031	804	100
Germany	3,024,830	876	86
Spain	3,460	37.5	102
Hungary	302,091	500	109
Portugal	3,682,281	1,000	97
Romania	1,232	160	109
Russia	595,818	10,000	85
Sweden	27,235	420	93
UK	10,940	1000	118

Note: The variable number of clients or beneficiaries captures the number of current paying customers or clients (if paying customers or clients are the same as beneficiaries) or the number of beneficiaries (if the paying customers or clients are different from the beneficiaries).

Helping to make labour markets more inclusive: Around one quarter of social enterprises surveyed train and/or employ specific often disadvantaged groups of individuals, and/or help those individuals find new employment opportunities. It is difficult to pin down precisely the number of beneficiaries employed or helped to find a job externally. Instead, we use a range of different indicators and compute an indicative range of 3.3 million to 5.66 million of beneficiaries in 2014 (see Table A3 in the Appendix). These values underline the hugely important role that a subset of social enterprises clearly play in making our labour markets more inclusive.

(3) Summary

The figures summarized offer reliable new evidence on an important thread of debate on the economic significance of social enterprises and the role they play towards leading our society to become more socially inclusive. They show that social enterprises make indeed significant economic contributions providing employment and engaging in economic activity, and have a positive outlook for the future. There is also evidence of important contributions towards societal inclusion – working across a range of diverse social issues, social enterprises support their beneficiaries offer volunteering opportunities, and help to make labour markets more inclusive. Likely a buy-product of their strong social focus is that social enterprises seem, in economic terms, to be less productive than commercial businesses.

While we offer important evidence, we are also aware that a holistic assessment of the economic and societal contribution of social enterprises would need to consider further dimensions than those that we were able to fit into this short policy brief. Examples are scrutiny of who is recruited to work at the social enterprises, at what wage level, the way the social enterprises are managed (e.g., participatory), diversity in the governance structures, or whether these social enterprises have contributed to attitudinal change vis-à-vis disadvantaged groups. Moreover, the substantial country differences invite future research to unpack influences of culture, institution and ecosystems on social enterprises.

POLICY IMPLICATIONS AND RECOMMENDATIONS

Despite the intensified attention that social enterprises receive today, policy making on social enterprises is faced with the challenge that extremely few reliable data sources on social enterprises exists, and fewer yet that are harmonized and comparable across countries. This is a challenge, because measures and policies to support social enterprises will be most effective if they can be based on a robust understanding of the population of social enterprises. This challenge inspired the

SEFORÏS study of social enterprises, which provides unique insights based on representative samples of social enterprises as organisations that are both economically and socially impactful. The SEFORÏS study allows to understand the full spectrum of social enterprises and showcases important heterogeneity in size, productivity, and reach not only across countries, but also within countries. This heterogeneity in turn calls for targeted policy making. The support needs of the very large social enterprises are likely significantly different compared to those of the very small social enterprises. The SEFORÏS study also breaks new ground methodologically by demonstrating how hard-to-reach populations such as social enterprises can be surveyed in-depth and at large scale to obtain representative samples.

RESEARCH PARAMETERS

SEFORÏS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORÏS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

SEFORÏS investigated key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we started from policy and social enterprise practitioner questions and challenges together with critically scrutinising existing academic literature. We used this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This was followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice. The project is divided into 10 work packages. WP1 to WP3 are mainly concerned with data collection. WP4 through WP8 different themes are studied and analysed. In WP9 results are disseminated and timely transfer of knowledge is ensured, while the objective of WP10 is to ensure successful delivery of the project through effective coordination.

WP1: Development of new evidence through interaction with key stakeholders
WP2: DEEP DIVE: Development of 25 in-depth cases of SEs in Europe and beyond
WP3: SELUSI 2.0 DATA on 1000 social enterprises in 9 nation states
WP4: The organization of social enterprises in market and society
WP5: The private and public finances of social enterprises
WP6: The innovations of social enterprises
WP7: Social enterprise in context
WP8: Social enterprises and their impacts
WP9: Dissemination and valorization
WP10: Governance and project management

PROJECT IDENTITY

PROJECT NAME Social Entrepreneurship as a Force for more Inclusive and Innovative Societies (SEFORÏS)

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BUDGET

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www.seforis.eu

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FURTHER READING

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Appendix

Table A1: Revenues, Surplus/Profits and Employees

Country	Measure	Mean	Median	N
CN	Revenues	363,069.3	36,649.28	100
	Surplus/Profits	68,925.24	0	100
	Employees	23.85	9	101
DE	Revenues	2.05e+07	600,000	101
	Surplus/Profits	27,132.82	0	100
	Employees	4,310.7	14	107
ES	Revenues	4,721,260	500,000	122
	Surplus/Profits	90,332.3	0	122
	Employees	152.15	15	123
HU	Revenues	847,490.8	203,124.3	112
	Surplus/Profits	183,66.9	323.9286	113
	Employees	47.69	13	121
PT	Revenues	2.36e+07	750,000	107
	Surplus/Profits	265,209.5	7,102	103
	Employees	56.98	15.5	112
RO	Revenues	473,349.1	196,055.8	109
	Surplus/Profits	25,346.39	1,322.55	109
	Employees	27.0′	12	109
RU	Revenues	213,542	58,879.18	81
	Surplus/Profits	12566.9	196.27	83
	Employees	16.89	10	104
SE	Revenues	2,435,031	219,82	96
	Surplus/Profits	26,148.26	5,495.41	95
	Employees	69.34	7	103
UK	Revenues	4,258,280	1,116,46	131
	Surplus/Profits	139,976.1	18,535.08	132
	Employees	96.85	24	135

Note: Revenues and Surplus/Profits are expressed in EURO. We apply the average currency exchange rate in 2014 (European Central Bank). All values refer to revenues and surplus/profits generated over the course of 2014 and reported by the social enterprise directors in 2015. Employees are reported in 2015.

Table A2: Productivity

Country	N	Mean	Median
CN	100	14,386	4,841
DE	100	94,142	41,608
ES	122	55,918	31,714
HU	105	34,904	11,517
PT	104	2,015,606	24,661
RO	103	24,862	11,424
RU	81	11,476	5,889
SE	90	59,287	40,522

Note: Productivity is measured here as the ratio of revenues (EURO) generated in 2014 over number of employees in 2014. For the revenue measure, we apply the average currency exchange rate in 2014 (European Central Bank).

Table A3:
Labour Market Inclusion

Nr	Selection variables	Sample	Number of beneficiaries employed or helped find a job in 2014
1	Social enterprises whose main activity (measured by effort spent) was coded as employment and training (International NPO Classification)	14% of total available sample or 146 SEs	5.66 million
2	Social enterprises who mention employment model as their operational model in relation to one of their activities	26% of total available sample or 268 SEs	5.42 million
3	Social enterprises who mention employment model as their operational model in relation to their main activity (measured by effort spent)	16% of total available sample or 169 social enterprises SEs	3.31 million

Note: The number of beneficiaries is the number in 2014 as reported by the director of the social enterprises in 2015 The aggregate number again hides considerable heterogeneity. We observe two very large values in the sample, which were reported by organizations who aspire to improve the employment opportunities for all citizens in a region and in large parts of the developing world, respectively.