

EFFECTIVE MODELS OF SOCIAL ENTERPRISE

Preamble

This submission responds to a request from the Social Inclusion Unit within DPM&C seeking information and literature on effective models of social enterprise and follows the Federal Government's recent *Jobs Fund* announcement, which aims to 'invest in one-off capital projects and provide seed-funding for social enterprises'.

The submission is made on behalf of Social Traders Ltd, Social Ventures Australia (SVA), School for Social Entrepreneurs (SSE), Mission Australia, Adult Multicultural Education Services (AMES), Brotherhood of St Laurence, Social Firms Australia (SoFA) and YarnTeen Ltd. The Australian Centre for Philanthropy and Non Profit Studies has also been consulted in the process of making this submission. These organisations are amongst others currently represented on the Advisory Group to the 2009 Social Enterprise World Forum (SEWF'09). SEWF'09 is being held in Melbourne on 6-8 October and is being co-hosted by Social Traders and Social Ventures Australia.

We would like to congratulate the Federal Government on its recognition of the role social enterprise can play in the broader economy. Both the Innovation Fund and the recently announced *Get Communities Working Fund* demonstrate the Federal Government's recognition of the potential for social enterprise to provide pathways to work and direct employment. The partner group contributing to this submission believes that social enterprise can play a positive role in creating and supporting such pathways. We bring considerable practical experience to a deeper understanding of the opportunities, challenges and costs involved and would welcome the opportunity to assist government in the development of policies, strategies and programs to support a robust social enterprise sector in Australia.

Understanding Social Enterprise

Social enterprises are businesses that are set up for the principal purpose of delivering social outcomes through trading activity. Profit-making social enterprises utilise the majority of their profits to advance their social goals.

Social enterprise is a highly effective way of providing long term self-sustaining responses to social issues impacting on individuals and communities. Social enterprises often succeed in responding to social issues that welfare programs and mainstream businesses are unable to address.

Whilst there is a breadth of social needs that social enterprise is responding to, in Australia and overseas there is a growing appetite for social enterprise that responds to the real needs of those people unable to obtain employment. There has been significant innovation occurring which has resulted in social enterprises that provide:

- direct employment
- pathways to the open labour market through time-limited traineeships,

- work experience placements
- volunteering opportunities.

With investment, capital and support from the Federal Government through the *Get Communities Working Fund* there is a significant opportunity to scale up social enterprise, improve best practice and develop a robust and sustainable sector that will provide on-going benefits to the community.

Social enterprises vary dramatically in organisational form, the issues they respond to, the markets they operate in, the way in which they are governed and the extent to which they are self-sustaining. Despite these differences there is a set of **key principles** that we feel are central to all social enterprises. Effective models of social enterprise:

- demonstrate a balance between economic and social sustainability
- recognise that a commercial focus is critical to the sustainability of the businesses
- create real employment, whether permanent or transitional, paid or unpaid
- contribute to the growth of local economy and strengthen communities
- are businesses that trade and need to be commercially focussed
- demonstrate strong partnership between key stakeholders
- demonstrate they are making a difference by measuring and reporting on their social impact.

Social Enterprise Employment Models That Work

In recent times we have seen growing interest from the community sector in Australia and overseas in utilising social enterprise as a means of responding to the employment needs of those excluded from the labour market. This approach has resulted in the establishment of a number of highly successful and innovative social enterprise employment models, notwithstanding the fact that nearly all social enterprises deliver employment outcomes. There is a broad range of social enterprise models, each informed by various research and studies in respect of their respective contributions to social and economic objectives. The following section provides a description of widely acknowledged, successful social enterprise employment models and key references.

Intermediate Labour Market Organisations

Intermediate Labour Market Social Enterprises (ILMs), also called Transitional Employment Organisations (TEO) are businesses that create a bridge to the open labour market for individuals experiencing long term unemployment and other significant disadvantage.

ILMs provide participants with fixed term (usually up to 12 month) jobs in real work settings where they are able to receive high quality accredited training and personal support. The job, training and personal support components of the ILM all combine together to address the barriers that have kept the participant out of the job market. By the end of the 12 month period

the participants are supported to obtain work in the open labour market. Evidence suggests that over 70% of participants in ILMs go on to obtain employment in the open labour market.

There are ILM and TEO social enterprises running throughout the developed world; they are most prolific in countries where there is a supportive government policy.

Suggested reading includes evaluations of ILM social enterprises in Australia and the UK as well as impact statements of two highly successful UK social enterprises; recommended reading includes: Mestan, K. and Scutella, R. with Allens Consulting Group (2007); and, Barraket, J. for Mission Australia (2008); FRC Group (2004); Fifteen (2008); Bickerstaffe, T. & Devins, D. (2004); Finn, D. & Simmonds, D. (2003). Refer Appendix.

Social Firms

Social Firms are businesses created to employ people with disabilities and to provide a needed product or service. Common principles include the aim to recruit people with a disability or some other labour market disadvantage to make up 25-50% of employees, ensuring every worker has fair pay and conditions and ensuring that at least over 50% of the businesses revenue is obtained through trading. Social Firms do not expressly intend to pathway their employees into employment elsewhere.

Social Firms first started in Italy in the 1970's and have now spread around the world. There are now successful social enterprises employing thousands of people. They are particularly prolific in Europe where there is supportive government policy.

Suggested reading on evaluation of Social Firms includes: Warner, R. & Mandiberg, J. (2006); and, Lishman, C. & Lishman, N. (2003); Orr, S. (2001). Refer Appendix.

Hybrid Models (also called Integrated Models)

There are many social enterprises that blend models in order to best meet the needs they are seeking to address. Hybrids or Integrated employment models – mix together work experience placements, time-limited traineeships and ongoing supported employment within a trading business.

Suggested reading includes a Social Return on Investment (SROI) on Six Mary's Place from the UK and an Australian example of Outlook Environmental. Refer Appendix.

Community businesses

These are social enterprises which are set up, owned and controlled by the local community to meet a local community need. They may take the form of a community or employee buy-out. These models are particularly significant in contributing to local economic development, employment and service retention in rural and regional communities.

Suggested reading for community buy-outs include: two examples of community businesses in regional Victoria Mummery, F. (2007); YCDC web site. For employee or worker buy-outs, refer Jensen, A (2006) from the UK. Refer Appendix.

Creating jobs through training

The School for Social Entrepreneurs Australia (SSE) is an innovative learning and development organisation supporting individuals to develop effective and sustainable social enterprises, which lead to local job creation in disadvantaged communities. The School was founded in the UK and is currently establishing itself in Australia. An evaluation of the SSE UK by the New Economics Foundation provides a longitudinal study on the success of the model in supporting place-based, employment generating social enterprises. Refer Appendix.

Comparisons of models, context setting and scaling

There are some key references that describe and critically analyse a range of social enterprise employment models. Recommended reading is Aiken M (2007) and Spear, Roger and Eric Midet (2005). Suggested references on replication and scaling social enterprise is provided by Tracey P & Jarvis O (2006) and UnLtd Ventures Replication Study. Refer Appendix.

The UK and European examples need to be understood in the context of the policy and funding environments in which they operate. The UK experience is outlined in the Social Enterprise Action Plan prepared by the Cabinet Office of the Third Sector (OTS) in 2006. Refer Appendix.

A model for assessment and funding

It is critical that the assessment and distribution of funds to social enterprises through the *Get Communities Working Fund* fully recognizes the needs of social enterprises. As businesses, social enterprises differ significantly to grant funded welfare programs. Investments in social enterprise by government need to provide 'wrap-around' support required to develop sustainable social enterprises. The following outlines the types of assistance required:

- **Planning Funds** so that social enterprises can be put through a robust feasibility study and, if deemed feasible, a subsequent business planning process;
- **Support** so that the social enterprises and individual social entrepreneurs building their business idea or their growth strategy can access expert resources, services, advice and training;
- **Start-up investment funds** so that social enterprises are able to access appropriate forms of capital to get under way;
- **Impact measurement** so that the contributions made by social enterprises are effectively captured and assessed.

The following factors should be considered in assessing fund bids and allocating funding:

- Clear business plans which outline the pathway to sustainability, based on a clear and sustainable market opportunity;
- Clearly defined employment model based on evidence of good practice;
- Realistic potential to be financially sustainable within 2-3 years;
- Operations requirements and realistic timescales to start-up and expand;

- Impact measurement plan.

It is recommended that the evaluation and assessment of social enterprise submissions to the *Get Communities Working Fund* be supported through an advisory group or panel including people with social enterprise and business expertise.

Future actions and opportunities for social enterprise development

The Government's recognition of the value social enterprises provide through the Innovation Fund Panel and the *Get Communities Working Fund* represent exciting initial steps. There is now a substantial opportunity for the Federal Government, working with other levels of government, the community, business and philanthropic sectors to develop a thriving social enterprise sector in Australia over the medium to long term.

Government has a critical role to play in contributing to the growth of the social enterprise sector. Development and implementation of coordinated strategies are required to:

- Increase the available **capital**
- Improve access to **markets**
- Increase social enterprise **capability**
- Understand the **impact** of social enterprise
- Raise the **profile** of social enterprise
- Develop a **social enterprise strategy**

Emerging market opportunities for social enterprises exist in relation to Green Jobs and social procurement. Government, business and community organisations all have the ability to create social enterprise markets through their procurement practices.

The partner group of organisations making this submission looks forward to working with the Federal Government and others to build the structures needed for sustainable social enterprise development in Australia.

Appendix

READING LIST

Intermediate Labour Market Organisations

Australia

Mestan, K. and Scutella, R. with Allens Consulting Group (2007), *Investing in People: Intermediate Labour Markets as Pathways to Employment*, Brotherhood of St Laurence, Fitzroy.
Investing in people: ILM's http://www.bsl.org.au/pdfs/Investing_in_people_ILMs_summary.pdf

Barraket, J. for Mission Australia (2008) *Working for renewal*
http://www.missionaustralia.com.au/document-downloads/cat_view/34-social-policy-reports

United Kingdom

FRC Group (2004) *Proving it? Our Social Accounts 2003/2004*
<http://www.frcgroup.co.uk/default.asp?catid=29>

Fifteen (2008) *Life in the present tense: Social Report 2007*.

Bickerstaffe, T. & Devins, D. (2004) *Intermediate labour markets: final report, new deal for Communities: the national evaluation*, Centre for Regional Economic and Social Research, Sheffield.

Finn, D. & Simmonds, D. (2003) *Intermediate Labour Markets in Britain and an International Review of Transitional Employment Programmes*, Department for Work and Pensions
<http://www.dwp.gov.uk/jad/2003/173rep.pdf>

Social Firms

United Kingdom

Warner, R. & Mandiberg, J. (2006) 'An update on affirmative businesses or social firms for people with mental illness. ps.psychiatryonline.org

<http://psychservices.psychiatryonline.org/cgi/reprint/57/10/1488.pdf>

Lishman, C. & Lishman, N. (2003) *Evaluation of the Social Firms Development Project Social Firms for Essex*,

Essex Orr, S. (2001) *Evaluation of Social Firms Development Project Social Firms Scotland*, Glasgow

Hybrid models

Australia

Outlook Environmental <http://www.outlookenviro.org.au/>

United Kingdom

SROI (2007) Social Return on Investment Report: Six Mary's Place

Community businesses

Australia

Mummery, F. and BCG (2007) A Guide to starting a recycling venture in your community, Eaglehawk Recovery Centre

Yackandandah Petrol Station <http://www.yackandandah.com/ycdco/AboutUs.html>

United Kingdom

Jensen, A. (2006) 'Insolvency, Employee Rights & Employee Buyouts: A Strategy for Restructuring'.

School for Social Entrepreneurs

New Economics Foundation (2006) School for Social Entrepreneurs: evaluation report. This document recognises the jobs created through people participating in the SSE.

Setting the context

United Kingdom

Cabinet Office, OTS (2006) Social enterprise action plan: scaling new heights.

Aiken M (2007), 'What is the role of social enterprise in finding, creating and maintaining employment for disadvantaged groups?' Office of the Third Sector

Spear, Roger and Eric Midet. (2005). 'Social Enterprise for Work Integration in 12 European Countries: A Descriptive Analysis'.

Tracey, P. & Jarvis, O. (Spring 2006), 'An Enterprising Failure', Stanford Social Innovation Review

UnLtd Ventures, Replication Study

<http://www.unltd.org.uk/template.php?ID=95&PageName=replicationstudy>