

Sustainable Social Enterprise: What does this Really Mean?

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One of the consequences of recent Federal Government funding in the social enterprise space has been the reappearance of debates and discussions about the sustainability of social enterprise. The question that inevitably gets asked is ‘can social enterprises become sustainable after 2 or 3 years (because that’s how long the funding is expected to last)’? When we ask what is meant by ‘sustainable’ in this context, the most common answer is: “It means that the enterprise is no longer dependent on grant funding”. It’s interesting to me that the discussions almost inevitably centre on assumptions that social enterprises can or should be independent of grant funding and that sustainability is focused only on financial measures. I’m not sure this is either helpful or appropriate.

What does sustainability mean in the context of social enterprises?

Sustainability is about an organisations’ capacity to endure over time. In the context of social enterprise, sustainability has two sides. One side relates to the fact that an enterprise needs to be able to survive and endure financially over time. However, there seems to me to be little point in talking about financial endurance without asking whether an enterprises’ social purpose can endure and whether it is able to maintain or deepen its impact over timeⁱⁱ. In social enterprises, impact and financial sustainability cannot be separated. Further, it is important that we start to understand sustainability as something that can only evolve after an enterprise can establish that it is **viable**. In other words, we cannot even begin to expect an enterprise to become sustainable until it is demonstrated that it can achieve both impact and operational outcomes over a period of time. Lastly, it is important that we develop a more complex understanding of financial sustainability. At Foresters we distinguish three levels of financial sustainability (drawn from our own experience as a social business, and our local and international research): operational sustainability, financial sustainability and balance sheet sustainability. Again it is important to re-emphasise that financial sustainability cannot be separated from impact sustainability when it comes to understanding social enterprise. So, in my opinion, impact viability and impact sustainability should begin and end any analysis of social enterprise sustainability. The table below outlines this continuum of viability and sustainability.

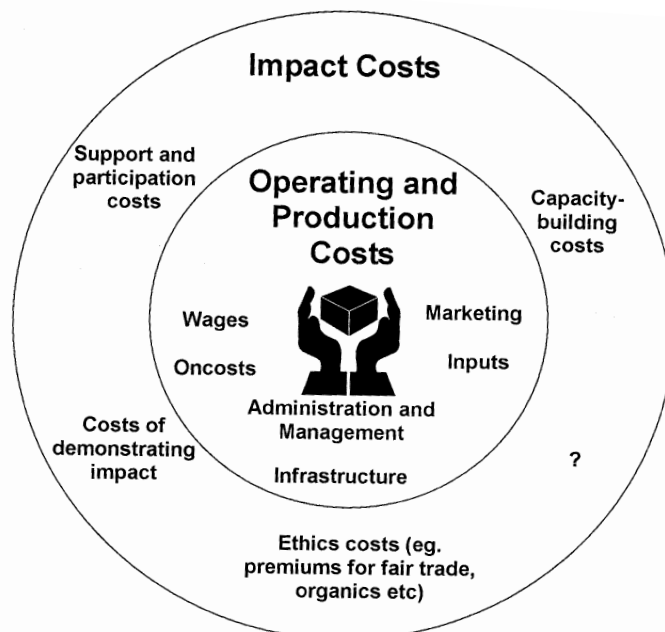
Impact Viability	Operational Viability	Operational Sustainability	Financial Sustainability	Balance Sheet Sustainability	Impact Sustainability
Ensuring best fit for impact	Ensuring a viable business	Covering Costs/ Breaking Even	Generating a surplus	Building equity	Maximising enduring impact
<ul style="list-style-type: none"> Is a social enterprise the best way to achieve maximum impact in relation to our social purpose? Can we demonstrate the viability of this social enterprise in achieving the intended impact either qualitatively or quantitatively? 	<ul style="list-style-type: none"> Is the business of the enterprise viable? Are we able to meet our operating costs? Are we costing our goods and services appropriately to cover all our expenses? 	<ul style="list-style-type: none"> Can we consistently cover the costs of our operations and all associated overheads and on-costs? Is our cash flow adequate, do we have adequate liquid funds? Have we been able to project and plan for our operational costs into the future and meet our financial obligations over time? 	<ul style="list-style-type: none"> Are we generating a profit or surplus? Is our surplus adequate to meet our ongoing growth and development needs? Do we have adequate plans and projections in place that will help us to shape our financial future? Are we confident that we are making use of our current resources most effectively and efficiently? 	<ul style="list-style-type: none"> Are we building equity and savings over time? Could we weather a financial storm or change in our circumstances? Have we built up our asset base over time? How long would our savings allow us to continue operating if we lost a major source of income? 	<ul style="list-style-type: none"> Are we delivering the sort of social impact that we envisaged we would? Are we able to sustain and depend this impact over time? Are we finding ways to ‘measure’ and ‘report’ on our social impact?

Currently, I don't think that we adequately acknowledge how much the two sides of sustainability co-exist in social enterprise, how much of a tension exists between them and how challenging it can be to balance both over the lifetime of a social enterprise. Below I briefly highlight two of the key challenges that this tension can raise in a social enterprise.

1. The social purpose and social impacts of an enterprise have real financial implications

The impacts that are generated through a social enterprise are not cost neutral. They consist of real costs that need to be accounted for in addition to the operational costs of the enterprise. Depending on what impacts are generated out of the social enterprise, the costs may or may not be covered by the operations of the business itself. So, for example, if the social purpose of an enterprise is employment generation for people who have been unemployed for long periods, then the impact costs will centre on the support of these people to hold on to jobs within the enterprise and possibly beyond it (if it is an Intermediate Labour Market enterprise). Chances are that the business of this social enterprise will centre on activities requiring relatively low levels of skill, and therefore it is likely that the margins in the operations will be relatively small. In such cases it is unrealistic to expect the social enterprise to cover the operational costs in addition to covering the impact costs. If, on the other hand, the purpose of the enterprise is to promote fair trade or to promote recycling, the impact costs may be related to the types of goods and services promoted, and may potentially be able to be covered by the operations over time.

The nature of impact costs will depend on the social, environmental or cultural purpose of the enterprise. The capacity of the enterprise to internally cover these costs will be related to the nature of the business, its structure, location, size and the capacities of the people involved or the stakeholders of the enterprise. The figure below illustrates a range of costs that could be referred to as 'impact' costs.



Generally speaking, the deeper the impact, the greater the impact costs, and the more difficult it will be for an enterprise to cover both its operational and impact costs from within the business.

2. If we don't transparently separate out the financial implications of both the operations and impact sides of an enterprise, then we can jeopardize its viability and long-term sustainability

While it is tempting for funders to want to ensure that the social enterprise is supported in whatever ways are needed, I am of the opinion that we should be very careful about how we utilize grant funding in the context of social enterprise. We should not be under the illusion that all social enterprises will be able to operate without grant funding, even in the long term. However, where and how we direct this funding is crucial to ensuring the viability and sustainability of a social enterprise. Based on the research that Foresters has undertaken into the financial needs and realities of social enterprise, and my own experience of managing a community enterprise, I believe that we should direct any grant or gift capital only into offsetting the impact costs or ensuring that the enterprise has the appropriate levels of infrastructure to undertake its work. I further believe that we should not use grant or gift capital to subsidize or cover any operational or production costs. It is necessary to ensure that the 'business' of the social enterprise is viable, and that it can pay for itself. So, if the social enterprise is a café that employs people who have experienced long-term unemployment, grant and gift capital could be used to help offset support, participation and impact costs of meeting this social purpose. The actual operations of running and managing a café (inputs, marketing, management, wages of core staff) need to be covered by the business itself if it is to be viable over time. Separating out the impact and operational costs can ensure that we have the best opportunity possible to build viable and sustainable social enterprises – and not merely create another layer of non-profit organisations who just have a slightly more enterprising façade.

Not expecting the earth from social enterprises

Finally, building viability and sustainability in social enterprises is a very challenging matter – and the difficulties should not be underestimated. It interests me then that we have such high expectations of social enterprise – both the individual enterprises and the sector as a whole. Not only are there unrealistic expectations that social enterprises will be 'sustainable' in relatively short periods of time (and with very simplistic perspectives of what it means to be sustainable as I've suggested above), but there are also other political and social expectations of social enterprises that are unrealistic, and could actually make it even more difficult to achieve a level of viability and sustainability. These include expectations that social enterprises should be exemplary employers, have pure supply chains, highly ethical practices in all that they do, pay living wages, and generally be most excellent corporate citizens. I've heard disappointment and contempt when social enterprises fail to meet some of these public expectations. I honestly believe that most social enterprises try their absolute hardest to operate ethically and demonstrate their values in whatever way they can. However, I think we need to be realistic about just how difficult it is to meet any, let alone all these expectations whilst also trying to demonstrate a clear impact AND be financially viable, never mind sustainable! We must begin to see the establishment of social enterprises as a process and a journey – they are not going to be able to achieve all social, environmental and financial objectives at once nor from the beginning. Running a social enterprise is hard, hard work. Yes it's rewarding sometimes, but most of the time it's a difficult balancing of social and business imperatives, whilst, at least in Australia, operating in an environment that is not yet as supportive or enabling as it possibly could be. Let's not put too much of a burden of perfection on social enterprise. It is not the single silver bullet for addressing all the social, cultural and environmental ills that befall us at this present time. If we can build social enterprises that are viable (socially and financially) and

then work towards whatever level of sustainability fits their purpose, then wouldn't this be a wonderful enough achievement?



Social Enterprise: The Burden of Perfection

ⁱ The views expressed in this opinion piece are not necessarily those of Foresters Community Finance. Further information about sustainability and financial realities of social enterprise are explored in a forthcoming paper that will be available on the Foresters website: www.foresters.org.au

ⁱⁱ Social enterprises have three core features: A social (environmental or cultural) purpose; a significant proportion of income coming from enterprising and business activities; a profit distribution that aligns and/or supports the impacts that stem from the social purpose.