

Social enterprise

Role of the board

Social enterprises are commercially viable businesses driven by making a positive social impact. They can range from organisations that operate singularly as social enterprises (for example, a cooperative or mutual society), to the extended trading business of an organisation that directs its profits towards further funding that particular organisation's mission or purpose (for example, a line of second hand clothing stores).

The *Finding Australia's Social Enterprise Sector 2016: Analysis* report¹ suggests the following definition.

"Social enterprises:

- a) are led by an economic, social, cultural, or environmental mission consistent with a public or community benefit;
- b) trade to fulfil their mission;
- c) derive a substantial portion of their income from trade; and
- d) reinvest the majority of their profit/surplus in the fulfilment of their mission."

Simply put, social enterprises are organisation's that either:

- direct the profits from operating a commercial business into a social benefit (for example the profits from operating a book store being directed into cancer support activities); or
- operate a business for social benefit (for example operating a child-care centre for the local community when no other exists).

Types of social enterprises

Social enterprises can be operated to generate profits to fund charitable causes, or alternatively the business itself can be the charitable or community cause, or both.²

Social Traders (an NFP organisation specialising in raising awareness of, and helping build capacity and access to markets for, social enterprises) classifies social enterprises into eight categories:³

1. Intermediate labour market companies – commercial business developed as a method of training and providing work for the unemployed;
2. Social firms – commercial business developed to provide employment for people with a disability;
3. Australian disability enterprises (Australian government term) – businesses developed to employ people with a disability who are unable to work in mainstream organisations;
4. Cooperatives, associations and mutuals – member-run, member-benefiting businesses which are designed to meet a specific need of members (for example, childcare);

¹ Social Traders, *Finding Australia's Social Enterprise Sector 2016: Analysis*, 2016, Centre for Social Impact, Swinburne University of Technology, p 4, <http://www.socialtraders.com.au/app/uploads/2016/07/Fases-2016.pdf>, (accessed 27 October 2016).

² A useful general reference on social enterprise can be found in Victoria and NSW Not-for-profit Law Guide, *Social enterprise guide: Legal issues to consider when setting up a social enterprise*, Justice Connect Not-for-profit Law, March 2014.

³ Social Traders, Social Traders Social Enterprise Builder, *Understanding Social Enterprise*, 2011, p 2, <http://www.socialtraders.com.au/our-services/crunch/builder/understanding/>, (accessed 27 October 2016).

5. Community enterprises – businesses designed purely to benefit the local community (for example, a credit union or petrol station);
6. Community development finance institutions – businesses created to provide access to financial products for people who find it difficult to access mainstream financial services;
7. Fair trade organisations – businesses created to improve the conditions and pay for producers of goods, usually in developing countries, through selling accredited goods to developed world consumers;
8. Charitable business ventures – an income-generation arm of a charity.

How are social enterprises different from charities?

Although social enterprises and charities both exist to achieve their socially important missions, there are several differences:

Area of difference	Social enterprise	Charity
Purpose	They exist to provide a social benefit. There is no restriction on what the social benefit may be and it can include social, economic, cultural, educational, or environmental issues.	They must have only charitable purposes that are for the public benefit. (There are 12 charitable purposes listed in the <i>Charities Act 2013</i> (Cth).)
Registration for status	There is currently no formal registration system in Australia. However, Social Traders provides a level of social enterprise certification.	Through the Australian Charities and Not-for-profit Commission (ACNC).
Profit status	They can be for profit or not-for-profit.	They must be not-for-profit.
Legal structure	They can use any legal structure.	They are restricted in legal structure choice, the most common being: <ul style="list-style-type: none"> • Incorporated associations; • Companies limited by guarantee. They cannot be a sole trader, partnership, proprietary limited company, listed company or a government entity
Tax concessions	It depends on the legal structure and NFP or charity status.	Extra tax benefits may exist, such as: <ul style="list-style-type: none"> • Fringe benefits tax exemption; • Deductible Gift Recipient (DGR); • Public Benevolent Institutions (PBIs).
Funding	They must be commercially viable businesses.	Their funding is mostly received from donations and grants.

The main difference lies in that a social enterprise uses commercial trading activities as a means to enable it to achieve its purpose. In some instances the mission/purpose is embedded in the commercial activity. In other instances the goods and services a social enterprise provides may even be for a completely different market and/or consumer than those it is trying to assist. Social enterprises are mostly NFPs and possibly also registered as a charity. However, they don't have to be either.

Conversely, not every NFP can simply become a social enterprise (although some NFPs may look to social enterprise as a model through which to diversify or grow revenue). In a time when governments are tightening their belts and more and more NFPs are bidding against each other for donations and grant funding, boards may need to consider all available options for ensuring their organisations remain financially viable.

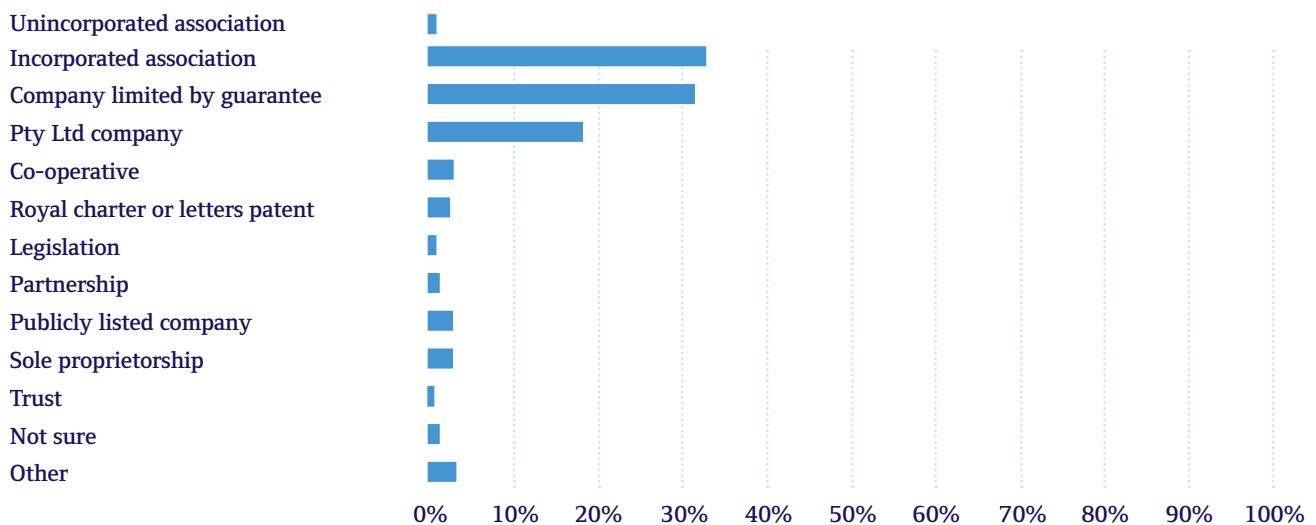
Despite expected challenges, creating a trading business may move an NFP towards greater independence and sustainability and can be more reliable than philanthropy and government funding.

Legal Status

Australia has no single legal structure defined as a social enterprise, unlike other jurisdictions such as the UK (which has community interest companies) and the US (which has benefit corporations).

Finding Australia's Social Enterprise Sector (FASES) reported the following legal structures were being used to operate the more than 20,000 social enterprises in Australia, the far majority of which are not-for-profit organisations:⁴

Legal Status of responding social enterprise (N=256)



What does B Corp certification mean?

B Corp certification is a private certification earned when an organisation meets the criteria set by B Lab, an American-based NFP company that lobbied the US government to create the separate legal structure “benefit corporations” for social enterprises.

The B Corp certification is available to for-profit businesses that meet rigorous standards of social and environmental performance, accountability and transparency requirements. The certification is similar to ‘organic’ or ‘fair trade’ certifications.

According to the B Corporation website, in June 2016 there were 1,785 certified B Corp organisations operating in 50 countries around the world, spanning 130 industries with one unifying goal of redefining success in business.

The *Why B Corps Matter* page of the B Corporation website⁵ states:

“Certified B Corporations™ redefine success in business.

Individually, B Corps meet the highest standards of verified social and environmental performance, public transparency, and legal accountability, and aspire to use the power of markets to solve social and environmental problems.

Collectively, B Corps lead a growing global movement of people using business as a force for good™. Through the power of their collective voice, one day all companies will compete to be best for the world™, and society will enjoy a more shared and durable prosperity for all.”

⁴ J Barraket, C Mason, B Blain, *Finding Australia's Social Enterprise Sector 2016: Final Report*, Social Traders and the Centre for Social Impact Swinburne University of Technology, 2016, p 15, <https://www.swinburne.edu.au/media/swinburne.edu.au/research/docs/pdfs/fases-final-report.pdf>, (accessed 27 October 2016).

⁵ B Corporation, 2016, [website], <https://www.bcorporation.net/what-are-b-corps/why-b-corps-matter>, (accessed 27 October 2016).

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