

Title: Social Entrepreneurs and Social Enterprises - Do they have a future in New Zealand?
Refereed paper to be presented at the 51st ICSB World Conference, Melbourne, June 2006.

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Abstract

Social entrepreneurs and social enterprises in New Zealand struggle for recognition from all sectors of society. They have failed to gain the necessary acknowledgement and support to create an enabling environment that would permit this form of small and medium business development to operate and grow to its full potential. The New Zealand situation contrasts with the case in countries such as the UK, Ireland, Canada, Australia and the USA where social entrepreneurs and social enterprises are seen as a means of overcoming social, employment and economic barriers in disadvantaged communities.

Social entrepreneurs and social enterprises can provide solutions to social, employment and economic problems where traditional market or public driven approaches fail. Social enterprise is a legitimate form of enterprise development that has a proven track record of successfully meeting the needs of the community within which it resides.

The paper also discusses policies, strategies, issues, challenges and opportunities for social entrepreneurs and social enterprises in the New Zealand context and contrast these with overseas developments.

1.0 Introduction

The chosen perspective of this paper is that of a practitioner. It is informed by more than twenty years experience working in the small business and not-for-profit sectors; academic study of practitioner literature; and information collected during the author's most recent study trip to the United Kingdom, North America and Australia. A comprehensive review of relevant academic literature has not been undertaken as work based experience reveals that the work of most practitioners in this field is not substantially informed by academic literature or university publications. The paper therefore makes extensive use of newsletters, magazines, websites, publicity material, government policy statements, industry colleagues and government field-workers word-of-mouth comments, case studies, study trips, conferences and workshops reports. These are also the prime information sources of social entrepreneurs, social enterprise managers and community economic development practitioners.

The paper examines the role of social entrepreneurs in the New Zealand context and questions the common assertion by the New Zealand private business sector, government and academics that social enterprises are on the fringe of mainstream socio-economic development. It also considers whether social enterprises have a future in the prevailing New Zealand business and political environment.

The paper suggests that social enterprises are a legitimate form of business, social and economic development that provides a bridge between social, economic and often environmental and cultural realities. However, new forms of funding, legal structures, advisory services and a shift in attitude from government, private, and in some instances, the not-for-profit sector from a disempowering to an enabling environment will be required if New Zealand social enterprises are to achieve their full potential in helping to overcome social, economic, environmental and cultural issues in advantaged and disadvantaged communities.

2.0 Definitions

Before the role and future prospects for social entrepreneurs and social enterprises can be discussed in depth it is necessary to clarify the terminology being used in this paper.

2.1 Economic Sectors/Systems

A nation's economy is often divided into three broad categories. The private (first) sector is privately owned, involved in trading, market driven and profit orientated. The government (second) sector is publicly owned, non-trading and with planned service provision. The community and voluntary (third) sector is socially owned, orientated towards non-personal profit, self-help, mutuality and social purpose (*Pearce, 2003*).

2.2 Social Entrepreneurs

Social entrepreneurs have been defined as "Innovators who pioneer new solutions to social problems - changing the patterns of society. They possess the entrepreneurial creativity and determination to pursue their vision relentlessly until it becomes a reality social-wide. (www.changemakers.net)

New Zealand practitioners would suggest that social entrepreneurs apply business thinking to community needs and bring together local skills and resources in innovative ways to achieve both business and social missions (*Jeffs, 2001; Lancaster, 2000; Mitchell, 1998*).

2.3 Social Enterprises

Whilst there are many definitions of social enterprises the United Kingdom Department of Trade and Industry (UKDTI) definition is widely accepted.

"A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners." (*DTI UK, 2002*)

2.4 Community Economic Development (CED)

Kenyon suggests CED involves "a sustained and united effort by the whole community to improve their local economy and quality of life by building their capacity to adapt and benefit from global economic changes." (Kenyon, www.bankofideas.com.au)

3.0 Background

The New Zealand government in its June 2001 budget joined the ranks of overseas governments such as the United Kingdom, USA and Canada who endorsed the role of social entrepreneurs as a means of providing solutions to entrenched social, economic, employment, environmental and cultural problems faced by disadvantaged individuals and communities. Two new initiatives were announced - the Community Employment Group's (CEG) Social Entrepreneurship Initiative that provided study or research grants to community leaders/innovators and the Department of Internal Affairs (DIA) - Community Project Worker Scheme that provided funding to support innovative youth and community development leaders.

In addition, these two government departments, in conjunction with COMMACT Aotearoa, and with support from the Ministry of Pacific Island Affairs and Te Puni Kokiri (Ministry of Maori Development) sponsored a major national conference on Social Entrepreneurship in Wellington in November 2001.

These initiatives added to CEG's Community Employment Organisations (CEOs) funding which had been announced in 2000 to support social enterprise development. Prior to the CEO initiative, funding for social enterprise development had been available from 1990 to 1993 through the Department of Labour's Local Employment Enterprise Development Scheme (LEEDS) (Lancaster 2000).

During this time period some local governments actively encouraged social entrepreneurship by funding visits to New Zealand by overseas experts or through funding assistance (CDC Annual Report 2003) whilst some philanthropic organisations provided grant funding (Tindall Foundation Report, 2003).

However, Jeffs (2001) prediction that despite the development of new programmes people who ran social enterprises would continue to struggle to gain recognition and proper forms of assistance proved to be correct.

In 2004, some recipients of the CEG funded Social Entrepreneur Award Scheme were criticised in the media and Parliament for not spending the money allocated for the purposes intended. These accusations led to the closure of not only the programme, but also the Department and the transfer of its surviving programmes to other government departments particularly the Ministry of Social Development which has a welfare and labour market opportunity focus. As a result the CEO scheme was modified to be employment outcome driven rather than economic or environmental outcome driven. In addition, support from local government agencies also decreased except in Waitakere (West Auckland) where the city council decided to undertake research to examine the potential of social enterprises as a provider of local employment opportunities (Simpson, 2006).

As a result of these actions the levels of funding and support services available in New Zealand to social entrepreneurs and social enterprises is now severely restricted when compared to several overseas countries such as the UK, Canada and Ireland.

The key contrast between the recent New Zealand experience and that of the UK, Canada and Ireland has been the absence of reflection on the economic realities which suggests that even in times of prosperity the need for community economic development, social enterprise and social entrepreneurship increases, as Western countries experience a dual economy of mainstream growth and chronic pockets of poverty.

In several Western democracies a new approach to addressing issues of domestic poverty was advanced in the late 1990s and early 2000s called the “Third Way”. This political philosophy attempted to address the excesses of free market economics by claiming a role for government in the provision of social services whilst advocating a role for the private and community sectors in delivering services based on specific need rather than universal entitlement (*Botsman & Latham, 2001, Bartlett, 2005*).

Tony Blair (UK Prime Minister), a leading advocate of the “Third Way” approach, says disadvantaged communities and individuals suffer from *market failure* as neither the private sector nor government schemes can overcome the problems or address the needs at the community level. (*DTI, UK, 2002*).

The importance of the social economy approach has also received support from the devolved UK governments (*DETI, NI, 2004, Scottish Executive, 2004 & Welsh Assembly, 2003*), the Irish government (*Department of Community, Rural and Gaeltacht Affairs, 2003*); the Canadian Federal Government, (*Canadian Federal Budget 2004/5*), the OECD, (*OECD, 1999:20*) and the European Union which predicts that the social economy will be one of the major areas of growth in Europe over the next ten years (*European Commission, 2001*).

Social enterprises are seen by these governments as a means of overcoming social, employment and economic barriers in disadvantaged communities. Support from government has been forthcoming through major social enterprise funding increases; new initiatives to ensure that social enterprises becomes part of mainstream economic development; the appointment of Ministers with specific responsibility for social enterprises and the creation of Government departments with a focus on social enterprises (*DTI, UK 2002; DTI, UK 2003; DTI, UK, 2004, Bank of England, 2003*).

As a result, in the above countries social enterprises play a vital role in the fields of:

- Social housing.
- Urban and Rural Regeneration.
- Community Owned Wind Farms.
- Environmental/Recycling Projects .
- Ownership and Management of Community Facilities
- Specialist Banks.
- Community Development Financial Institutions (CDFIs).
- Social Investment Funds.

- Fair Trade Companies.

In the USA there is some legislation that supports the social economy sector such as that which requires government departments to purchase goods and services from firms employing people with disabilities if the price and quality are right and the Community Reinvestment Act that requires banks to invest in poor areas and to establish Community Development Financial Institutions.

The Australian experience matches that of New Zealand and the USA with no formal federal government reports on social enterprises having been written. However, the Australian federal government did provide funding towards several social entrepreneurs conferences held between 2001 and 2003 and towards the establishment of the now defunct national social entrepreneur network. In addition, some leading politicians (*Latham, 2001*) and indigenous activists (*Pearson 2002*) have strongly advocated the use of social entrepreneurs and social enterprises as a way of achieving welfare reform.

4.0 Why have Social Entrepreneurs and Social Enterprises Struggled in New Zealand in recent times?

The failure of New Zealand to keep pace with the changing environment for social entrepreneurs and social enterprises reflects the failure of successive New Zealand Governments, and the wider society, to encourage and support new approaches to social funding and community development. The causes of this failure can probably be traced to the predominant socio-economic and political ideologies that have shaped New Zealand since 1984 and marginalised the social economy sector.

Over the last two decades New Zealand has moved from one of the most regulated to one of the less regulated economies in the world. The transformation involved the reduction of trade barriers, the sale of state assets, privatisation and contracting out of public service provision, reductions in the level of state support and the introduction of market forces to all sectors of the economy. The underlying philosophy of society also shifted from collective to individual responsibility. New Zealand society from the 1930s to the mid 1980s considered social issues such as unemployment and housing as the collective responsibility of society. Consequently, local and national governments accepted responsibility for addressing such issues. However, with the introduction of “new right” economic philosophies the responsibility for social and economic disadvantaged was moved to the individual.

The effects this transition on the social, environmental and cultural fabric of society have been well documented and widely debated in both New Zealand and overseas (*Easton, 1997; Jesson, 1987 & 1999; Kelsey, 1993, 1997 & 1999; Thompson, Alvy & Lees, 2000*).

The not-for-profit sector in response to these economic changes, and its own growing importance in the economy, changed from being primarily grant or donation funded providers of welfare services to the disadvantaged (*Robinson & Hanley, 2002*) to contracted providers of government funded services to the disadvantaged using business methods and approaches (*Kramer 2000*).

As a result many existing not-for-profits developed contracted service delivery arms and/or new community owned businesses (social enterprises) to deliver services especially in the areas of employment training, enterprise development, micro finance, media services, local urban and rural economic development, environmental services, health and education.

However, despite the developments described above, the history of social enterprises in New Zealand has been largely that of an outsider to the mainstream of economic and social development with the emphasis and timing of support from central and local government, being largely based on short-term pragmatism rather than any coherent ideological commitment to social entrepreneurship, social enterprises or community economic development.

Government department officials appear to be reluctant to support social enterprises with staff frequently lacking the necessary skills, experience and knowledge to properly assess or assist social enterprises. In New Zealand, social enterprises are explicitly excluded from access to publicly funded mainstream business schemes, advisory services, training and venture capital schemes run by the Ministry of Economic Development and their service delivery arm New Zealand Trade and Enterprise.

Since the 1980s the New Zealand private sector has been dominated by big business, overseas ownership, an ideological belief in the primacy of the market and a limited role for government involvement in business (*Hazeldine 1998*). The language of the marketplace has become paramount and public and third sector organisations have been defined as non-productive and draining on society (*Zimmerman & Dart, 1998*). Community involvement in any aspect of business is seen as an impediment to business' right to operate. The business sector considers that the role of the third sector should be limited to social service delivery to the needy and funded by philanthropic organisations. Consequently, social enterprises have been excluded from normal business services, grants and financing by financial institutions who cite ownership issues and profitability.

The philanthropic funding community in New Zealand has tended to be orientated towards providing grants and donations to charitable social services organisations to cover operating and occasionally capital projects rather than for funding social enterprises to develop self-sustaining businesses.

The New Zealand media likewise shows little interest in social entrepreneurship and social enterprises except when there is alleged misspending of public money (*The Press, 2 July 2004*).

The third sector in New Zealand is dominated by social service organisations who often view social entrepreneurs and social enterprises with suspicion as they consider that they represent a commercialising of the sector and a further attempt by the State to withdraw from the provision of public services.

Social entrepreneurs and social enterprises have also been slow to form sustainable networks in New Zealand. The few that did exist such as Small Business Enterprise Centres of New Zealand, COMMACT Aotearoa and the South Island CEO Network, have either been disbanded or gone into recess following the withdrawal of public funds with the demise of CEG.

Social enterprises, being based on radical political ideologies (*Baradat 1994*), receive support from the establishment in New Zealand only in times of economic and/or social upheaval (economic recession and high unemployment) when there is a need for the delivery of public goods and services or the provision of job opportunities to the disadvantaged. New Zealand communities likewise tend to use the model when they are under stress and collective, self-help and mutual action is required for survival.

This use of social entrepreneurs and social enterprises as an emergency approach to social and economic development fails to acknowledge and utilise such organisations history of past success and their future potential.

5.0 Role of Social Entrepreneurs in Enterprise, Economic, Social and Environmental Development

Social entrepreneurship is a relatively new term which came into being in the 1990s but it is not a new phenomenon and in many ways is a re-packaging of several tried and tested community development approaches such as community businesses, social firms, social enterprises and co-operative trusts. Simpson says “social entrepreneurship is a synergistic blend of social motivation and entrepreneurial mindset, applied in pursuit of economically and societally sustainable outcomes” (*Simpson, 2006 pg. 4*).

Like the business sector there have always been entrepreneurial people operating in the not-for-profit sector but the term social entrepreneur was not used to describe their behaviour or function. Instead terms such as community sector developer, community business manager, manager or co-ordinator were used. By using the term 'social entrepreneur' it is possible to re-market this approach to economic and employment development in a way that is understood by a business audience and therefore encourages business people to become involved (*Skloot, 1983, McLeod, 1977, Bernick, 1984*).

Society as a whole today believes that to obtain sustainable economic growth, society needs entrepreneurs whether they are based in the business, government or community sectors. Without entrepreneurs to create additional wealth by improving the effectiveness, efficiency, equitability, sustainability and scale of operation of businesses the number of jobs would remain constant (*Lichtenstein & Lyons 2001*).

Governments around the world have taken note and are now encouraging the development of private sector, public and social entrepreneurs as a means of achieving economic growth and reducing the medium to long term cost of welfare provision (*Garrett 2000*).

The role of the social entrepreneur has been described as “...one species in the genus entrepreneur. They are entrepreneurs with a social mission” (*Dees, 1998 p. 3*). Dees, suggests that for social entrepreneurs the social mission is both explicit and central. Their focus is on the social mission rather than on wealth creation. He suggests that for business entrepreneurs, wealth creation is a means of measuring value whereas for social entrepreneurs wealth is just a means to an end. The survival or growth of the social enterprise is a measure of its efficiency and effectiveness.

Jeffs (2001) considers social entrepreneurs, like their business counterparts, to be a means of overcoming resource limitations but they have the added responsibility of producing social and human capital as well as financial capital. Social entrepreneurs are expected to be innovators who can produce wealth creation through identifying community needs; drawing together the resources required; and establishing collaborative links between the various sectors of society to create something from nothing (Thompson et. al 2000).

The skills of the social entrepreneur are similar to those required by a business entrepreneur. The business entrepreneur thrives on innovation, competition and profit, whereas the social entrepreneur thrives on innovation and inclusiveness to change the systems and patterns of societies.

Social entrepreneurs work in areas where the market does not perform well. The market economy has difficulty measuring public good or harm, social improvements and benefits for marginalised people or communities. Economic measures are poor indicators of the social, environmental and cultural health of a community (Dees, 1999).

Also because for the social entrepreneur there is a need to achieve both a social and business mission this can create a tension within the third sector organisation and within the individual as they attempt to balance ethical as well as profit making goals. Traditionally, many not-for-profit organisations regard financial management as achieving break-even status and do not see asset accumulation as ethical.

The academic community in New Zealand until recently has not seen social entrepreneurship or social enterprises as an important area of study. The awakening interest is occurring at a time when social enterprise is at its lowest ebb. For example, there have been two recent conferences on entrepreneurship in New Zealand. The 3rd AGSE International Entrepreneurship Research Exchange held on Unitec's Auckland campus in February 2006 had an indigenous and social entrepreneur stream whilst the 2nd CommEnt Research Symposium hosted by Lincoln University considered the role of community economic development and social enterprises.

Academic writing on the subject of social entrepreneurs during the mid to late 1990s has been concerned with understanding the personal characteristics and attitudes of social entrepreneurs as individuals rather than as a member of a team operating in an organisational concept. However, the concept of the social entrepreneur being a fundamental ingredient in the development of social enterprises is largely an American concept based on an underpinning philosophy that stresses individualism, competition and the role of private businesses. This philosophy does not find favour with New Zealand practitioners and the sector itself, who are acutely aware that co-operation, collaboration, teamwork (involving an initiator, developer and manager) and a 'hands on attitude' are essential elements to the establishment and running of a social enterprise (Pearce, 2003; Haugh & Pardy 1999; Prabhu, 1999).

Consequently, as the collective approach is not stressed, the idea of social entrepreneurship has little support amongst practitioners in New Zealand. Simpson (2006) quotes a study by Walker (2004) which suggests that in New Zealand "...social entrepreneurs are not overly interested in philosophical musing about the legitimacy or otherwise of their operating

style, preferring instead to devote their energies to an unending search for improved methodologies and performance.”

6.0 Role of Social Enterprises in Enterprise, Economic, Social and Environmental Development

Evolution of a Business Culture

Social enterprises (community or collectively owned businesses) fulfil a vital function in the evolution of a business culture in any society and have a long tradition. Cabaj (2004) argues that Canadian social enterprises can be traced back at least 12,000 years as communities, to cope with the effects of hunger, disease and war, needed to be as self-sufficient as possible in food supply, to trade and form alliances to provide other resources and tools, to determine a communal allocation of resources and to work within the natural environment. The community was the social enterprise.

The same was true for New Zealand's indigenous Maori communities "... in pre-European times.... all economic development work was based on the whakapapa-based collectives (including the collective wealth and well-being) of iwi, hapu and whanau communities - could be said to be community economic development." (Howard, 2004)

In such societies and many developing countries today the majority of the population are engaged in the informal economy and the social enterprise - based on the village or extended family - is the most typical business form.

In the Western European context the corporate or individually owned business is a relatively new concept. The earliest types of business were probably communally based. It is suggested that the social and economic system based on "the commons" - where the uses of land and resources were negotiated between families and communitarian values - is maybe the starting point for social enterprise and community economic development (Howard 2004).

Other writers (Pearce, 2003; Birkholzer, 1996) trace the European origins of social enterprises to the medieval guilds of workers and the other socio-political movements since that time which stressed the importance of working together for a common social purpose. They suggest that the birth-place of modern social enterprises is the co-operative movement of the 1840's onwards and includes mutuals and friendly societies who maintain control in the hands of members rather than an external individual/s or shareholders with the emphasis being placed on collective forms of production and ownership.

The cooperative movement played a crucial role in the establishment of New Zealand's land based industries in the 1870s to 1930s. Freezing works and dairy factories were 'built on co-operative principles as farmers recognised that they needed to act co-operatively to process their products. Other cooperatives were established in the retail, insurance and banking sectors. Marketing cooperatives were established for distributing products to the national and international marketplace for commodities such as dairy products, apples, honey and kiwifruit.

In addition, following Treaty of Waitangi settlements from the 1990s onwards many Maori or iwi-based organisations have started social enterprises as means of fulfilling both social and economic missions such as increasing the groups wealth and improving the well-being of iwi members through education, health and employment initiatives (*Potiki, 2005; Solomon, 2005*).

In ‘developing’ or traditional economies the role of social enterprises in the business development pathway is easily discernable as most people do not work in the formal economy of structured work, wages and profit. They work in the informal economy living a subsistence lifestyle producing food and commodities required by the family or the village. With the advent of the money economy many people move to the town to seek work earning wages. However, the work gained is often intermittent and the wages are frequently insufficient to meet the family’s requirements so without a welfare system a cycle of poverty often commences. To address such issues of poverty individuals often try to supplement their income by attempting to find sustainable employment/self-employment or turn to crime, prostitution or other black market activities. Whilst such endeavours prove successful for some people the majority are left behind. At some stage people realise that individual endeavour is insufficient to address the problem of poverty and that collective action is required. As a result a social enterprise may be developed which produces goods/services on a collective basis and distributes income back to its members.

Social enterprise fits within the developmental framework as it offers at a local level the best model to meet people’s needs.

In most deprived communities (geographic or common interest, ethnic or culturally based) in ‘developed’ countries there is a lack of employment opportunities and the provision of essential infrastructure services such as banks, government departments and shops. In such situations individual action does not provide a solution to the problems facing the community instead collective action is needed to re-establish basic services in the community before legitimate private sector small, medium and large businesses can successfully operate (*Pearce, 2003; Davis, 2005; Lewis, 2004; Richard, 2004*). Therefore, social enterprises are the basic building blocks for enterprise development and are probably the original business form.

Collective Action

The business development pathway outlined above in a deprived community from black market business, to community owned business, to government owned business to private owned business is not linear and circumstances influence the order but normally the collective approach precedes the individual approach in establishing legitimate business forms.

This need for a collective approach to establish and develop business is well known and common. New approaches to business development including business networks, joint ventures, strategic alliances, clusters and franchises rely on the joint action of individual members. Such forms of business-normally involve the collective (group) purchasing of goods and services, group funding, group marketing and promotion plus group storage.

In addition, certain products and services can only be provided, especially in small economies, through collective or common ownership. Most infrastructural developments such as energy and sewage, utilities, water, roads, urban transport, rail, air and sea ports, education and health services are government or community owned or underwritten. Group ownership is necessary to access the required resources to build and operate the facility.

Individuals to make any form of lasting change often need to work collectively. For example, private businesses form collective organisations to lobby the government or advance their collective interest. Social enterprises, by their very nature, are collectives who work for common good. Mutuality is part of their governing principals and therefore they are a method for teaching people how to work in a collective manner.

Social enterprises also provide a means by which these people in society who prefer to work mutually and collectively can participate in the economic life of the nation. New Zealand examples include credit unions, building societies, community owned banks, co-operatively owned buying groups and community owned mutual associations.

Innovation

Social enterprises in New Zealand and worldwide, can be as innovative or creative as any for-profit business. In the areas of resource recovery New Zealand social enterprises are at the cutting edge of new product development producing diesel oil from recycled cooking oil and new glass bench tops from recycled glass. Other new developments are occurring in social equity housing, rural tourism, managed workshops, community training, care services, recreational facilities, micro-credit and urban renewal. The drive for innovation, process improvement does not recognise artificial sectorial boundaries imposed by people divorced from the operation of the market and society.

Bridge Between Economy Sectors

The social economy model is a reminder that there is not just one way to address social and economic issues as is often suggested in market driven economies. Writers such as (*Hazledine, 1998; Waldergrave et.al 1996*) suggest that the current economic model operating in New Zealand is based on economic rationalism and supports individualistic free trade, open markets and global trade. They argue that the proposition that such an approach is the most efficient way to deliver goods and services to the market was in the past challenged by socialists and communists whereas today the challenge comes from people concerned about the side effects of the open market system (wealth disparities, loss of human values, alienation and poverty).

Douthwaite (*1996*) and Lewis (*2004*) argues that the social economy model suggests that economics should be rooted within the social context in which human beings live out their lives rather than the vice versa. At the same time it requires linkages and alliances to build a solidarity economy at the global level.

By being driven by self-help, mutuality and social purposes social enterprises provide a model of economic development and management that helps create civil society. By utilising the social economy model the Community Employment Group in its policy paper dated 2003 aimed to create in New Zealand enterprising communities to unlock the

initiative, entrepreneurship and creativity of local people so that they could create vibrant places to live, work and play within the context of economic and environmental sustainability and socially inclusive development policies and practices.

Key Social Services

New Zealand society like other Western countries relies on the services and products provided by the third sector which pre-dates any form of comprehensive government economic, social or personal support for people in need. Much of what is delivered by the third sector can not be delivered effectively by either the private sector or government. If the third sector was unable to perform its tasks adequately the country would be in chaos. Through its use of collective action the third sector plays a crucial role in regenerating social capital and maintaining democratic values and a civil society.

Public Goods

Social enterprises are required in many economies to provide products or services that are basically a social or public good rather than an economic good. Private sector firms want to operate in areas where personal profit can be made either directly or indirectly (through subsidy or tax rebate). In those industries where only certain segments are profitable private enterprise operates but leaves the marginal and unprofitable sectors to government or not-for-profits. In addition, private enterprise frequently relies on externalizing certain costs of production such as air, water and soil pollution plus waste disposal to the public and community sectors.

The recycling industry illustrates this dynamic well. Private recyclers want to take out of the waste system profitable items such as metals, paper and leave the rest. As a consequence the community has either through local government trading ventures or directly attempted to reduce the amount of waste going to landfill. A comparison between the relative success of these two approaches can be made in Canterbury, New Zealand. The Christchurch City Council created Recovered Materials Foundation removes 19% of material from the waste stream whereas social enterprises operating in the neighbouring rural districts of Ashburton and Hurunui remove up to 50% of the waste stream. The difference in success is because the social enterprises adds vision, commitment, voluntary labour, innovation, creativity, drive and passion into the business operation.

Local Ownership

Economists frequently argue that the New Zealand economy pays an interest loading due to its small scale and non-diversified economy (*National Bank, 2005*). Community economic development helps to diversify the local economy through business creation and retention, encouraging the purchase of NZ made goods and services, increasing the level of NZ owned businesses and assets thus helping to reduce the level of 'invisibles' paid to overseas firms and financiers.

Without increased ownership of community assets wealth creation remains the province of the few who are often external or overseas investors. Community ownership of facilities

and infrastructure is not only desirable it is readily achievable. In countries such as the UK and Canada local communities are investing in community owned wind farms, social housing and community facilities as a means of obtaining guaranteed income which is then diverted into community projects.

It is increasingly becoming apparent that if disadvantaged people are to improve their lot in society then they must increase not only their personal capabilities but also their capacity by increasing their ownership of assets. Several New Zealand organisations are promoting this approach including the New Zealand Institute (*Skilling, 2004*) and Ngai Tahu (*Potiki, 2005*).

7.0 Enabling Environment

A number of new initiatives have been introduced in the United Kingdom to support social enterprises including:

- New legal structures – such as the Community Interest Company.
 - New approaches to profit retention for not-for-profit organisations.
 - Initiatives to assist those not-for-profit organisations who are attempting to move from a grant to a self-sufficiency mentality.
 - New financial incentives including the establishment of Community Financial Development Initiatives and leveraging traditional banking funds.
 - Support for national, regional and local networks to assist development of the social economy.
 - Transfer of surplus government and council assets to social economy enterprises.
 - Opening public procurement to not-for-profit organisations.
 - Encouraging duplication and replication of successful social economy enterprises.
- (*DTI UK 2003*)

Similar initiatives are required in New Zealand if disadvantaged communities and individuals are to start on the road to achieving positive income streams. Outlined below are two areas that need further investigation.

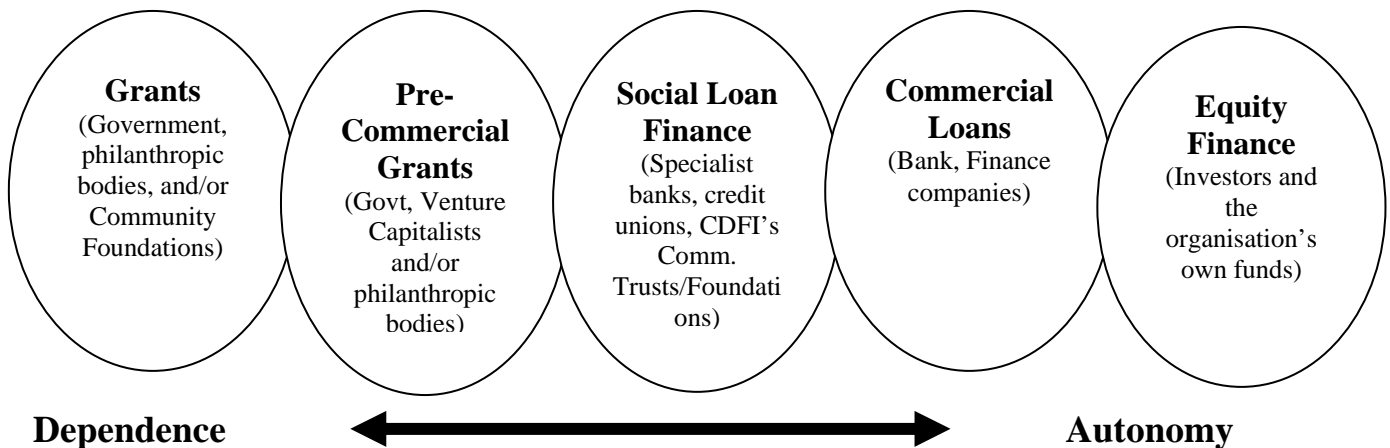
Funding

In the UK, the Bank of England (*2003*) reviewed the provision of debt and equity finance available to social enterprises. It found that the demand for debt finance among social enterprise was limited both by the availability of other, cheaper forms of funding such as grants, and by cultural aversion to the risks associated with borrowing. Social enterprises were more likely than for-profit (SMEs) to be rejected for finance. Reasons for rejection included lack of available security (including personal guarantees), legal structures that are not familiar to mainstream financiers, lack of understanding by lenders of grant funding streams, use of credit and behavioural scoring by funders, risk of ‘social backlash’ to the lender and low levels of investment readiness. Venture capital or business angel finance

was also unavailable to social enterprises due to the difficulty of providing commercial finance returns, ownership issues and the lack of an exit strategy.

New Zealand financial institutions have been slow to respond to the changing social and economic environment for social enterprises. They have extremely conservative lending policies; demand loan security in the form of property or personal guarantees; and appear to view the third sector with suspicion as its legal structure and *modus operandi* does not fit the business norm.

As a consequence several of the stages necessary to successfully fund a social enterprise are missing (see diagram below). There are currently limited opportunities for pre-commercial grants; limited social loan finances available from philanthropic bodies or micro and ethical financial institutions, restricted commercial loans which are almost impossible to obtain for social enterprises and a lack of equity finance. Occasionally, philanthropic bodies may give a large grant that builds the equity of the not-for-profit sufficiently for it to purchase a capital asset that can be used to develop a sustainable business,



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If sustainable funding is to be provided to social enterprises it will require a shift from a grant to an investment culture mentality by funders. Social entrepreneurs prefer a loan to grant approach because of the following:

- Credit is seen as dynamic, developing and useful when a project has the potential to become self-sustaining.
- Loans create an autonomy rather than a dependency mentality in an organisation.
- Loans demand a continuously responsible financial performance by recipients so that the money can be repaid and then further circulated to other social enterprises.

In comparison, grants are viewed as being cultural, repairing and creators of dependency. They are vital in times of disaster when individuals have suffered trauma and for non-sustainable social service delivery aimed at maintaining a safety net for society's ills but do not provide sustainable funding for a social enterprise.

Tax Issues

Social enterprises are frequently criticised by government and the private business sector for being inefficient as they are not driven by the profit motive and do not pay taxes on profits generated. However as social enterprises have a dual social and business mission they work in the most marginal market sectors, with low gross profit margins, little or no access to business capital or business support services.

Social enterprises often have a higher staff to unit of output ratio than for-profit businesses. This is due to social enterprises creating jobs for marginalised people who normally have substandard levels of skills and need significant staff training and support to bring them to a standard output level. As a result, social enterprises pay a disproportionately high level of payroll tax. In addition, on all government funds social enterprises receive they almost invariably lose the GST component so the government automatically receives a return of funds. By recruiting employees from the ranks of the unemployed and disadvantaged the government also receives the direct economic benefit of lower welfare spending on unemployment, sickness, invalids and domestic purposes benefits. Indirectly the state also benefits from lower rates of crime, family breakdown and health spending. Consequently, some form of tax relief is required to provide a level playing field for social enterprises to compete against for-profit firms.

8.0 Conclusions

The reasons that social entrepreneurs and social enterprises in New Zealand work in a hostile business and social environment reflects the failure of successive New Zealand Governments, and the wider society, to encourage and support new approaches to social funding and community development. The current emphasis on private business development and the free market agenda marginalises social entrepreneurs and social enterprises from mainstream economic and social development thinking, policy development, funding and support services. Such an approach leaves core social and economic service providers dependent for their survival on the goodwill of either the individual or the community.

Without an understanding by mainstream agencies of the underpinning imperatives of social entrepreneurship and the recognition of the third sector's contribution to the economy, the provision of new opportunities and meaningful employment for marginalised people is significantly reduced and the status quo maintained. When the skills of social entrepreneurs are used business development occurs which provides a market for SMEs and a platform for welfare reform.

However, social entrepreneurs, from a funding, political or government support perspective is currently a dead concept in New Zealand. It will take a minimum of a decade to successfully rehabilitate the concept. Whether it is desirable to do so is debatable given that currently the term is used to describe behaviours, attitudes and styles of operation that do not easily fit within the range of functions that initiators, enablers and managers of successful social enterprises actually do nor their mind set or what they want to achieve. A continual focus on the concept of social entrepreneurs may be damaging to the social

economy sector and prevent the development of an enabling environment for social enterprises in New Zealand.

Without an integration of community development and social enterprises into mainstream economic, social, environmental and cultural policy and strategy development New Zealand runs the risk of turning its back on a tried and proven approach to development that encourages citizens to engage in entrepreneurial activities and help to build an inclusive civil society.

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