

# Social Enterprises: Conceptual Debates and Approaches



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## 1 Introduction

Social enterprise is a term recurrently used in the fields of social economy, social entrepreneurship, social innovation, and impact economy and has generated numerous debates. In Europe, the term “social enterprise” appeared at the beginning of the 1990s, when the Italian parliament passed a specific law for social cooperatives.<sup>1</sup> In the US, the first reference was in 1993, when the Harvard Business School launched the Social Enterprise Initiative.<sup>2</sup>

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<sup>1</sup>Borzaga and Santuari (2001).

<sup>2</sup>Defourny and Nyssens (2006), p. 3.

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Since then, the growth of social enterprises worldwide has been significant, as has the conceptual discussion on it. The aim of this chapter is to present and analyze the main debates and approaches to the concept of social enterprise, as well as to address the main recent trends. To this end, we carried out a review of the most relevant academic literature and institutional reports on the subject to present the concept of social enterprise from the different schools that have contributed to its characterization. We then describe and compare different social enterprise models based on their main characteristics. We also discuss the evolution and trends of the roles, characteristics, and activities of social enterprises.

## 2 Concept of Social Enterprises: Debates and Approaches

Since the 1990s, social enterprises have become an increasingly widespread and recognized business model. However, the definition of the concept of “social enterprise” remains ambiguous, with blurred boundaries, for which no consensus has been reached, both in academic research and in legal-regulatory spheres.<sup>3, 4</sup> Similarly, the concepts of “social entrepreneur” and “social entrepreneurship,” which are commonly used in the literature, are poorly defined.<sup>5</sup>

From a research perspective, several authors have put forth definitions of social enterprise that attempt to explain the phenomenon.<sup>6, 7</sup> These definitions are, in many cases, controversial,<sup>8, 9</sup> given the lack of a unifying understanding or paradigm.<sup>10</sup> The current literature offers a fragmented, eclectic picture that approximates the multidimensional nature of this concept. Aliaga-Isla and Huybrechts (2018) reviewed up to 45 articles published between 2000 and 2015 with definitions of social entrepreneurship that incorporate some relevant novel feature and have not been used by other authors before. These definitions addressed different dimensions, such as the specific profile and role of individual social entrepreneurs, place of innovation, pursuit of market revenues in nonprofit organizations, allocation of profits for the fulfillment of social missions, and governance for a sustainable balance between economic and social goals.<sup>11, 12, 13</sup>

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<sup>3</sup>Galera and Borzaga (2009).

<sup>4</sup>Defourny and Nyssens (2017).

<sup>5</sup>Aliaga-Isla and Huybrechts (2018).

<sup>6</sup>Austin et al. (2006).

<sup>7</sup>Harding (2004).

<sup>8</sup>Dacin et al. (2010).

<sup>9</sup>Roper and Cheney (2005).

<sup>10</sup>Bacq and Janssen (2011).

<sup>11</sup>Borgaza and Defourny (2001).

<sup>12</sup>Díaz-Foncea and Marcuello (2012).

<sup>13</sup>Defourny and Nyssens (2017).

Teasdale (2012, p. 99) highlighted that “social enterprise” is a fluid and contested concept affected by three variables: (1) it is constructed by diverse actors promoting different discourses, (2) it is connected to different organizational forms, and (3) it is based on different academic theories.

Regarding the first variable, actors and discourses, the literature has pointed to the shaping of definitions of competing discourses and interests, as well as divergent languages and narratives from a wide range of actors.<sup>14, 15</sup> The ultimate relevance of each proposal to the criteria defining the concept of social enterprise has been linked, to a large extent, to the framework in which the different approaches and organizational models they include emerge and are applied.<sup>16</sup>

In relation to organizational forms, the social enterprise is one of the organizational models that incorporate a hybrid nature combining features from social and commercial entrepreneurship.<sup>17, 18</sup> Furthermore, the concept of social enterprise itself has been linked to a wide variety of legal structures and organizational forms, contingent on the national context in which it is observed.<sup>19</sup>

Finally, the efforts of various authors to reach a broad conceptual agreement on social enterprises that serve as a basis and reference for the agents involved have come up against the existence of a traditional dichotomy between the Anglo-Saxon and continental European vision. These two perspectives propose different approaches to social enterprises and have led to the establishment of four general models.<sup>20, 21</sup>

The two perspectives have important differences. The continental European perspective identifies social enterprises as a means of solving substantive problems of vulnerable social groups through the development of economic activity. Therefore, both in the academic world and in continental European institutions, the concept of social enterprise is seen as an integral part of the social economy. The continental European perspective thus gives more importance to the external or operational features of the social enterprise than to the social objectives or mechanisms for achieving them, on which the Anglo-Saxon perspective is based.<sup>22</sup> For its part, the Anglo-Saxon perspective understands social enterprises from a one-dimensional approach (see Fig. 1), which tends to place social enterprises along a continuum from purely social to purely commercial and which assumes

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<sup>14</sup>Teasdale (2012).

<sup>15</sup>Defourny et al. (2021).

<sup>16</sup>Chaves and Monzón (2018).

<sup>17</sup>Austin et al. (2006).

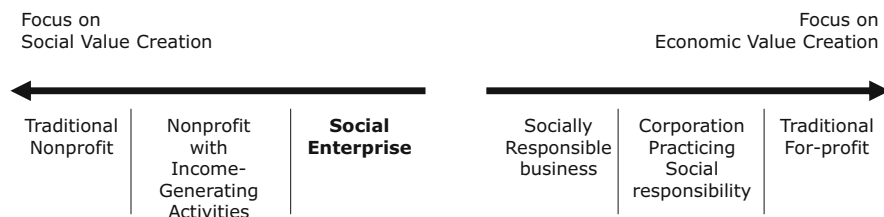
<sup>18</sup>Bacq et al. (2013).

<sup>19</sup>Wilkinson (2015).

<sup>20</sup>Defourny and Nyssens (2017).

<sup>21</sup>Chaves and Monzón (2018).

<sup>22</sup>Vargas (2020).



**Fig 1** Social enterprise within the social–commercial continuum of the Anglo-Saxon perspective [Source: Own elaboration, based on Alter (2007, p. 15)]

that the social and commercial dimensions are independent and involve a zero-sum relation—“more of one implies less of the other.”<sup>23</sup>

Thus, the Anglo-Saxon perspective considers the social enterprise as a hybrid between traditional nonprofit organizations and conventional capital companies, understanding them either as financing tools, via the market, for nonprofit organizations or traditional companies (“income generation” approach) or as an entity with the capacity to put social innovation into practice (“social innovation” approach), which, in any case, have the achievement of benefits for their owners or shareholders as their main objective (social entrepreneurs or nonprofit organizations, among others). This social innovation is specified<sup>24</sup> as new ideas (products, services, and models) that simultaneously meet social needs more effectively and create new modes of social relations.<sup>25</sup> Such ideas are developed by individual social entrepreneurs, who thus become agents of change, following Schumpeter’s proposal (1942), by balancing the economic aspects of the project while addressing new needs and/or using new ways of responding to traditional social demands.<sup>26, 27</sup>

As for the continental European perspective, the international scientific association EMES Research Network for Social Enterprises has played a key role in the development of a common approach to the study of social enterprises in Europe.<sup>28, 29</sup> Indeed, many authors speak of an “EMES approach” to social enterprises.<sup>30, 31</sup> As outlined by Galera and Borzaga (2009), the conceptual framework proposed by EMES seeks to combine the two existing and widely used concepts for defining organizations that are neither public (state) nor for-profit (market) enterprises: the nonprofit sector and the social economy. However, the EMES concept of social

<sup>23</sup> Pestoff and Hulgard (2016), p. 1752.

<sup>24</sup> Bureau of European Policy Advisers (2010), p. 33.

<sup>25</sup> Chaves and Monzón (2018).

<sup>26</sup> Dees (1998).

<sup>27</sup> Young et al. (2016).

<sup>28</sup> Borgaza and Defourny (2001).

<sup>29</sup> Galera and Borzaga (2009).

<sup>30</sup> Defourny and Nyssens (2014).

<sup>31</sup> Pestoff and Hulgard (2016).

**Table 1** Dimensions of and distinctive criteria for a social enterprise

Economic dimension	Social dimension	Political dimension (participatory governance)
Continuous activity of production of goods and/or sale of services	Explicit aim to benefit the community	High level of autonomy
Significant level of economic risk	Initiative launched by a group of citizens or civil society organizations	Decision-making power not based on capital ownership
Minimum amount of paid work	Limited profit sharing	Participatory nature, involving different interest groups affected by the activity

Source: Adapted from Defourny and Nyssens (2014)

enterprise seeks not to replace other existing concepts but rather to “enhance the concepts of the third sector by shedding light on the entrepreneurial dynamics focused on social objectives within the sector, while capturing the evolving trends affecting the social services sector” in Europe.<sup>32</sup> Thus, EMES defines social enterprises as private nonprofit organizations that provide goods and services directly related to their explicit objective of benefiting the community. Social enterprises are based on a collective dynamic in a way that involves the different stakeholders in their governing bodies, are autonomous entities, and bear the risks related to their economic activity.<sup>33</sup> An essential contribution of EMES is its proposal of nine indicators for defining entities that could be qualified as social enterprises, grouped into three blocks: the economic and business, social, and participatory dimensions (see Table 1).

Vargas (2020, p. 66) pointed out that these indicators describe the ideal type of social enterprise, but they do not represent the conditions that an organization must necessarily meet, nor are they intended to provide a structured concept of social enterprises. Nevertheless, the EMES approach has had consequences for the legal system of both the European Union and many European countries.<sup>34</sup> Following the evolution of the recognition and reality of the term “solidarity economy,” the continental European perspective could be complemented by incorporating this approach into the conceptual map of social enterprise, which is identified as a means for economic democratization.

The solidarity economy emerged in a context of crisis around the 1980s, as a reaction to the institutionalization of the social economy and its tendency toward market isomorphism, offering an alleged political capacity for social transformation. As Laville (1994) pointed out, the solidarity economy is based on a return to the principles of associationism, a reflection on the dynamics of participation, and a theorization of exchange. The first two are linked to the participatory governance dimension proposed by the EMES approach, whereas the third calls for questioning the economic order. This is based on Polanyi’s (1983) denunciation of the

<sup>32</sup>Galera and Borzaga (2009), p. 213.

<sup>33</sup>Díaz-Foncea and Marcuello (2012), p. 146.

<sup>34</sup>European Commission (2020).

“economistic fallacy,” which equates the economy with the market, and on the approach taken by Polanyi, for whom all economic activities can be conceived as a combination of several economic principles (redistribution, reciprocity, and the market), rather than referring solely to the market principle.

Although the term “social and solidarity economy” has been used in academic, political, and professional circles since the 2000s, solidarity economy organizations are considered to belong to the public sphere, in the sense that they are conceived not as private organizations (as conceptually established for social economy organizations) but as citizens’ initiatives that call for public action. Thus, the solidarity economy brings together all activities that contribute to the democratization of the economy through citizen participation, considering these activities not only in terms of the legal form under which they are carried out (association, cooperative, mutuality, etc.) but also through their double dimension of economic and political.<sup>35</sup>

### 3 Social Enterprise Models: Main Characteristics

Beyond the search for a general concept of social enterprise that is accepted by the different actors involved in this field, many authors<sup>36, 37</sup> have proposed following an alternative research strategy that seeks to accept the existence of different types and models of social enterprise that emerge from the specific socioeconomic reality of each environment. However, as Gordon (2015) pointed out, few authors have provided a list of definitive criteria and characteristics that allow their respective typologies to be used to classify a given set of social enterprises.

Young and Lecy (2014) proposed the metaphor of the “social enterprise zoo” based on the Anglo-Saxon perspective. The grouping of animals by species (groups of animals that maintain common characteristics) could be assimilated to the different models of organizations identified with social enterprise (a category of entities with common objectives, organizational behavior models, and those with competitive or cooperative interactions with other categories). Young and Lecy (2014) identified six social enterprise models in this “zoo”:

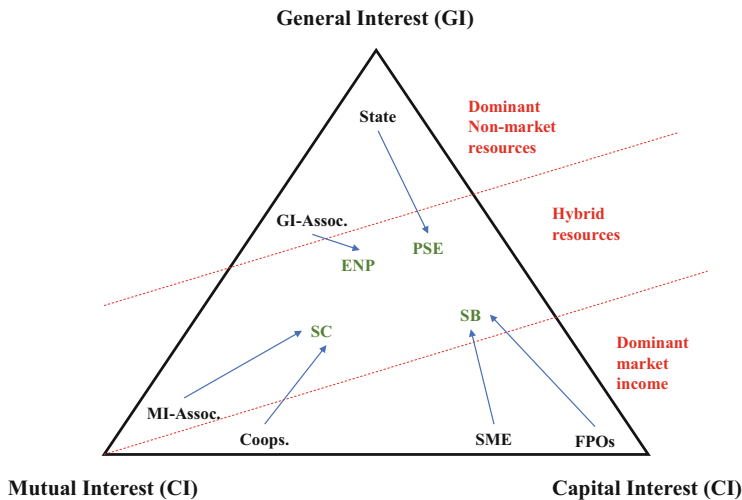
1. For-profit business enterprises that develop corporate social responsibility programs in which social objectives play a strategic role
2. Social businesses that seek an explicit balance between social impact and commercial success
3. Social cooperatives that maximize the welfare of their members while including a public benefit dimension

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<sup>35</sup> Eme and Laville (2006).

<sup>36</sup> Alter (2007).

<sup>37</sup> Spear et al. (2009).



**Fig. 2** Institutional trajectories and resulting social enterprise models [Source: Defourny and Nyssens (2017, p. 2479)]

4. Nonprofit organizations that engage in commercial activity in the marketplace for the instrumental purpose of raising resources to further their social mission
5. Public–private partnerships that combine the commercial and social objectives of their partners (which may include a for-profit, a nonprofit, and/or a governmental entity) in an effort to achieve the social mission set out in the signed contractual agreement
6. Hybrid models that internalize the characteristics of other forms of social enterprise by explicitly combining the organizational components of both models (commercial enterprises promoted by nongovernmental organizations (NGOs) or NGOs that are subsidiaries of a commercial enterprise)

From this delimitation, different categories of social enterprises operate, at least in theory, with fundamental differences in their organizational rationale. They are also driven by different objectives or general success criteria, which justify the study of social enterprises by examining each “species” separately.

From a continental European perspective, Defourny and Nyssens (2017) proposed a categorization of social enterprises based on the “institutional trajectories” followed by the public, private, and social sector models (which have traditionally been based on the principles of general interest, the profit-making interest of capital, and reciprocal or mutual interest, respectively) by forming hybrids of the different types of resources on which social enterprises are based (market, nonmarket, and hybrid resources).

As shown in Fig. 2, a traditional organizational model is located at each vertex: many associations and nonprofit organizations are close to the general interest, whereas cooperatives are a classic example of the pursuit of mutual interest, and

**Table 2** Perspectives on, approaches to, and models for social enterprises

Perspective	Approach	Model
Anglo-Saxon	Revenue generation	Nonprofit commercial
		Social-mission-oriented company
	Social innovation	Social entrepreneur
Continental European	EMES	Social cooperative
		Work integration social enterprise

Source: Own elaboration

capitalist enterprises are linked to the interest of capital. Social enterprises are situated at the crossroads of the three motivational principles and types of resources, representing a hybridization of traditional models of enterprises and social organizations, ultimately giving rise to four main models:

- Entrepreneurial nonprofit organizations: all nonprofit organizations that develop any kind of income activity in support of their social mission
- Public sector social enterprise: public service commercialization movement encompassing public sector spin-offs, sometimes in partnership with third-sector organizations
- Social business: social enterprises that mix this logic with a “social enterprise” drive aimed at creating “blended value” (i.e., the value is created jointly with the client and other stakeholders, not only by the firm, considering its economic, social, and environmental performance)
- Social cooperatives: organizations that combine the pursuit of the interests of their members (mutual interest) with the pursuit of the interests of the whole community or of a specific group targeted by the social mission (general interest)
- Both classifications by Young and Lecy (2014) and Defourny and Nyssens (2017) are in line with the social enterprise models that emerged from the Anglo-Saxon and continental European approaches. These approaches (income generation and social innovation, in the case of the Anglo-Saxon perspective, and the EMES approach in the continental European perspective) take the form of four traditionally established social enterprise models.

From the Anglo-Saxon perspective, the “commercial non-profit” model emerged in the 1980s, in the context of austerity and the reduction of public revenue, through the development of new market-based business strategies by nonprofit organizations in the United States for financing the social activities they had been carrying out (Table 2).

The “social-mission-oriented enterprise” model incorporates social responsibility and social issues into the objectives of the enterprise as a priority. In this way, it adds a social mission to the economic mission that has traditionally been linked to business enterprises, regardless of their legal form. A concrete example is the B-corp movement and the “companies with purpose,” which bring together companies that voluntarily agree to incorporate into their statutes the use of different standards of social and environmental performance, public transparency, and legal



responsibility, as well as take into account their workers, their customers, the suppliers, their community, and the environment in which they are located when making decisions. Their mission is not only to maximize shareholder value but also to create value and have a positive impact on people and the planet.

These organizations carry, as Chaves and Monzón (2018) pointed out, the model of “social business” promoted by 2006 Nobel Peace Prize winner Muhammad Yunus. This business assumes a more restrictive social mission by focusing on the poorest people, as a business for the bottom of the pyramid. Yunus (2011) defined social enterprise as “a non-loss, non-dividend enterprise designed to address a social purpose.” These two models, “commercial non-profit” and “social mission-oriented enterprise,” are included in the “income generation” approach, which emphasizes the balance between the commercial element and the social mission—based on the development of a commercial activity—with the aim of obtaining income to finance the social objectives (the social mission) of the enterprise.

The Anglo-Saxon perspective also includes the “social entrepreneur” model, which specifies the “social innovation” approach. The social entrepreneur model has been incorporated into several countries through the Ashoka Foundation, a nonprofit foundation founded in the United States in 1981, with a reach of more than 3600 social entrepreneurs in more than 90 countries, thus becoming the reference organization in social entrepreneurship.

The European perspective uses cooperative tradition as a starting point for the development of economic activity for achieving the objective of solving substantive problems in different social groups. Scholars<sup>38, 39</sup> have acknowledged the recognition in 1990 of “social cooperatives” in Italy as the moment of the emergence of the social enterprise model in continental Europe. These organizations combine mutual and general interests to solve problems of structural unemployment and groups with employability difficulties, in addition to providing social services, such as education and health care.<sup>40</sup>

Teasdale (2012) observed that the link between the cooperative model and the discourse of community enterprise has enabled the concept of social enterprise to position itself as a model for the third way in the UK. Young and Lecy (2014) highlighted the relevance of the social cooperative model—it has enabled the concept of social enterprise to be connected with the tradition of the social economy from the European perspective.

“Work integration social enterprises” (WISE) may be considered a separate model within this perspective. WISE follow their own development path, with roots in the associative (rather than cooperative) sector and a relatively strong dependence on public policies to support work integration.<sup>41, 42</sup> Indeed, work

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<sup>38</sup>Fici (2016).

<sup>39</sup>Defourmy and Nyssens (2017).

<sup>40</sup>Chaves and Monzón (2018).

<sup>41</sup>Defourmy and Nyssens (2017).

<sup>42</sup>Defourmy et al. (2021).

integration is a broad and heterogeneous term. For example, in Spain, two types of organizations are recognized within this model and are included within the framework of the social economy: organizations that target socially excluded groups (such as “insertion enterprises”) and organizations that target people with disabilities (such as special employment centers).

Insertion enterprises must be incorporated as commercial companies (therefore, possible legal forms also include worker-owned companies or cooperatives). To be officially recognized as insertion enterprises, they must meet specific criteria: 51% of their share capital must be held by a social organization or a nonprofit entity, more than 30% of their staff—50% from the 4th year of existence onward—must be workers in the process of integration into the labor market, and they cannot distribute more than 20% of their profits). They must also develop an economic activity, and their main objective must be the integration and training of people at risk of social exclusion.

Regarding the other submodel of WISE, special employment centers in Spain were created by Law 13/1982 with the aim of pursuing the social integration of people with disabilities into the open labor market. These centers can take any legal form, and their owners can be any natural or legal person, public or private. They perform productive work, engage in commercial operations, and aim to provide paid jobs and appropriate personal and social services to workers with disabilities (who must constitute at least 70% of their workforce). Since 2017, a legal distinction has been made between social and business initiative special employment centers, the former being those that are promoted and more than 50% owned by nonprofit entities and are obliged to reinvest their profits in full in the social initiative special employment center itself or in others.

These models can traditionally be considered social enterprises in Spain,<sup>43, 44</sup> which also include associations and foundations under both social economy (focused on the promotion of disability) and nonhegemonic cooperative models (e.g., health cooperativism, responsible consumer cooperatives and nonprofit entities with economic activity).

These models fall under the European Commission’s operationalization of the concept of social enterprise (Sect. 4.2). This operationalization makes it possible to apply a shared definition in multiple national contexts in a coherent manner using the three key dimensions proposed by the continental European approach to provide concrete guidelines (Table 3).

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<sup>43</sup> Spear et al. (2009).

<sup>44</sup> Díaz-Foncea and Marcuello (2012).

**Table 3** Operationalization of the concept of social enterprise by the European Commission

Main dimension	General definition	Minimum requirements
Entrepreneurial/ economic dimension	Stable and continuous production of goods and services (revenues are generated mainly from both the direct sale of goods and services to private users or members and public contracts) (At least partial) use of production factors functioning in the monetary economy: paid labor, capital, assets; although relying on both volunteers—especially in the start-up phase—and noncommercial resources, to become sustainable, social enterprises normally also use production factors that typically function in the monetary economy	Social enterprises must be market oriented (incidence of trading should be ideally above 25%).
Social dimension	The aim pursued is explicitly social. The product supplied/activities run have a social/general interest connotation (the types of services offered or activities run can vary significantly, depending on unmet needs arising at the local level or, in some cases, even in a global context)	The primacy of the social aim must be clearly established by national legislation, statutes of social enterprises, or other relevant documents.
Inclusive governance, ownership dimension	Inclusive and participatory governance model (all concerned stakeholders are involved, regardless of the legal form; the profit distribution constraint, especially on assets, guarantees that the enterprise's social purpose is safeguarded)	The governance and/or organizational structure of social enterprises must ensure that the interests of all concerned stakeholders are duly represented in decision-making.

Source: European Commission (2020)

## 4 Evolution and Trends

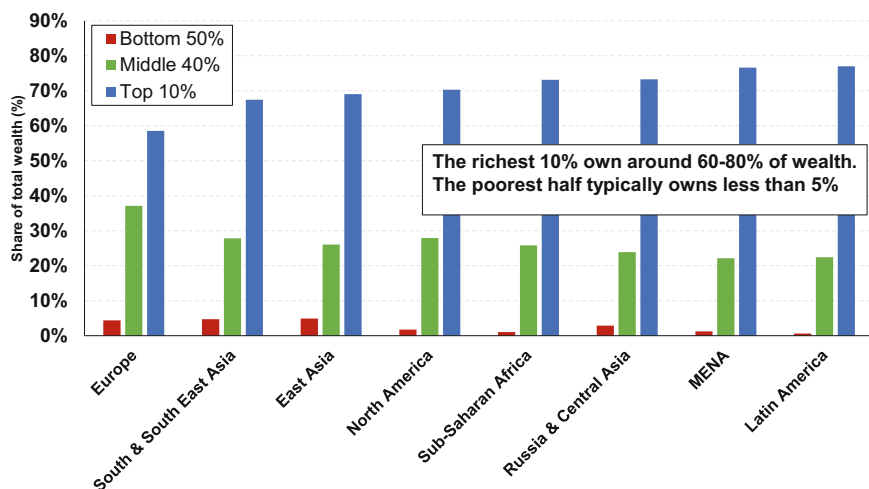
### 4.1 Context

As mentioned in the previous sections, the first social enterprises to be recognized were the so-called social cooperatives in Italy in 1990.<sup>45, 46</sup> These “new” cooperatives mainly offered services, such as “home help (including medical) for the disabled, children, and the elderly, are professional retraining, direct occupational placement or outplacement for disadvantaged and unemployed people, production of craftwork items, labour-intensive work in agriculture and fishing, ethical and solidarity-based trade.”<sup>47</sup> In other words, the phenomenon already indicated by

<sup>45</sup>Borzaga (1996).

<sup>46</sup>Thomas (2004).

<sup>47</sup>Thomas (2004), p. 250.



**Interpretation:** The Top 10% in Latin America captures 77% of total household wealth, versus 22% for the Middle 40% and 1% for the Bottom 50%. In Europe, the Top 10% owns 58% of total wealth, versus 38% for the Middle 40% and 4% for the Bottom 50%.

**Sources and series:** wir2022.wid.world/methodology.

**Fig. 3** Extreme concentration of capital: global wealth inequality, 2021 (Source: World Inequality Report, 2022)

Demoustier (1999, p. 33) “due to the exacerbation of competition, as well as the growth of inequalities and social heterogeneity, is once again taking place: they have been asked to take charge of the population, activities and territories excluded from the major economic circuits.” Economic globalization and the financialization of the economy are the main causes of the increase in social exclusion, inequality, and poverty in the world. Moreover, the market did not meet people’s actual needs, especially the care needs of the most vulnerable population. Meanwhile, economic growth was occurring in sectors that were more “interesting” from the perspective of the benefits obtained from the investments made—that is, sectors linked to technology, energy, and transport.

The scenario in 2022 has not changed. Wealth inequality continues to widen, and the demands of the most vulnerable people have increased. According to the World Inequality Report 2022<sup>48</sup> (p. 11), “income and wealth inequalities have increased almost everywhere in the world since the 1980s, following a series of deregulation and liberalization programmes that took different forms in different countries. The increase has not been uniform: some countries have experienced dramatic increases in inequality (including the United States, Russia and India), while others (European countries and China) have experienced relatively smaller increases. These differences among countries confirm that inequality is not inevitable, but a policy choice.” Figure 3 shows the extreme concentration of capital and global wealth inequality in 2021.

<sup>48</sup>Published in December 2021 by World Inequality Lab. Available at <https://wir2022.wid.world/>.

Furthermore, the health crisis caused by the COVID-19 pandemic has affected the global population, and the consequences have been different across countries. Predictably, the most vulnerable population has suffered the most devastating consequences in terms of health, unemployment, and increased inequality. In some countries, the informal economy has become larger than the formal economy. The social economy has also suffered the consequences of the COVID-19 pandemic, but it has also responded to multiple situations that have occurred in all countries.

The World Inequality Report 2022 shows that economic inequality has been growing for years and that it is a consequence of the different political decisions made by countries. In addition to wealth inequality, for more than 20 years, there has been an enormous concentration of economic power in large corporations and certain economic activities. This context generates several common and global phenomena:<sup>49</sup> (1) greater economic instability in all territories, which generates more frequent, intense, and globally recurrent crises; (2) greater socio-labor instability of territories being provoked owing to the increase in global labor precariousness, the privatization of public services, and the consequences of climate change; (3) enormous concentration of the population in large cities, generating enormous inequality between urban and rural areas; and, finally, (4) global democratic weakening, owing to the loss of decision-making capacity in territories, an increase in the power of large corporations, and an increase in individualism. This context indicates the need to establish policy measures in different areas, such as ensuring attention to the needs of the most vulnerable population and especially in the business model being promoted. In this sense, the role of social enterprises is increasingly necessary because of their configuration, management model, principles, and values.

## 4.2 Evolution

An interesting example of the development of social enterprises can be seen in Europe. In 2011, the European Commission launched a program to promote social enterprises, called the Social Business Initiative.<sup>50</sup> This program has been evolving, both in the definition of social enterprises and in the policies for their promotion. The latest published definition of the European Commission is as follows: “A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an

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<sup>49</sup> Bretos and Marcuello (2017).

<sup>50</sup> [https://ec.europa.eu/growth/sectors/proximity-and-social-economy/social-economy-eu/social-enterprises\\_en](https://ec.europa.eu/growth/sectors/proximity-and-social-economy/social-economy-eu/social-enterprises_en); Two pioneering documents that identified social enterprises are the European Economic and Social Committee EESC opinion on “Different types of enterprise” INT/447 2009 and the EESC opinion on “Social entrepreneurship and social enterprises” INT/589 of 26 October 2011.

open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.” Furthermore, the types of business of social enterprises, according to the European Commission, are “a) Those for who the social or societal objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation; b) Those whose profits are mainly reinvested to achieve this social objective; c) Those where the method of organization or the ownership system reflects the enterprise’s mission, using democratic or participatory principles or focusing on social justice.” Finally, the European Commission point out that “there is no single legal form for social enterprises.” That is, we can find social cooperatives, private companies limited by guarantee, mutual corporations, nonprofit organizations, associations, and charities of foundations.<sup>51</sup>

This definition contains three important elements that configure an enterprise model, all of which will have a clear impact on the context described in the previous section. The European Commission recognizes three substantial elements of social enterprises: (1) the social or societal objective of the common good is the reason for the commercial activity; (2) profits are mainly reinvested to achieve this social objective; and (3) the method of organization or ownership system reflects the enterprise’s mission, using democratic or participatory principles or focusing on social justice. These three elements have a major impact on the above context. First, economic activity is subordinated to the fulfillment of social objectives or the common good, which will have a clear impact on the generation of economic activity with a long-term view, avoiding situations of risk and rapid growth to favor and create greater economic stability and contribute to the mitigation of climate change. Second, the reinvestment of profits will make it possible to generate more decent working conditions and avoid the incorporation of free riders, who only seek personal enrichment through economic activity without considering the rest of the stakeholders. Third, the democratic and participatory decision-making model of social enterprises will favor the democratic stability of territories and the co-responsibility of different stakeholders.

Finally, the European Commission has also been evolving in terms of what it considers to be the main areas of economic activity of social enterprises. The main sectors of economic activity are identified as work integration, personal social services, local development of disadvantaged areas, and more diverse activities, such as recycling, environmental protection, sports, arts, culture or historical preservation, science, research and innovation, consumer protection, and amateur sports.<sup>52</sup> Nicolas Schmit, European Commissioner for Labor and Social Rights, stated in the report published by the European Commission (2020, p. 5), that “Social enterprises contribute to important policy objectives, such as job creation, inclusion, equal opportunities, sustainability and social engagement. They are an excellent

<sup>51</sup> <https://ec.europa.eu/growth/sectors/proximity-and-social-economy/social-economy-eu>.

<sup>52</sup> European Commission, Internal Market, Industry, Entrepreneurship and SMEs, [https://ec.europa.eu/growth/sectors/proximity-and-social-economy/social-economy-eu\\_es](https://ec.europa.eu/growth/sectors/proximity-and-social-economy/social-economy-eu_es).

example of an ‘economy that works for people,’ which represents one of the main priorities of the European Commission (EC).”

### 4.3 Trends

Regarding trends in the field of social enterprises, we identified two issues to highlight: first, social enterprises are expanding their scope of economic activities; second, business models are being generated that more clearly incorporate the need to change the traditional business model based on the subordination of the company’s decisions to the remuneration of the company’s capital.

Regarding the first trend, in the 1st years in which the term social enterprise began to be used, it was mainly identified with business experiences directly linked to processes of socio-labor integration for people experiencing exclusion and people with disabilities. In Spain, WISE<sup>53</sup> and special employment centers<sup>54</sup> were the first legal figures recognized at the state level as social enterprises.<sup>55</sup> In Italy, social cooperatives<sup>56</sup> emerged “in response to the failure of policies for the employment of disadvantaged workers” and as an “expansion of the social economy.”<sup>57</sup>

In 2022, amid the COVID-19 pandemic, the range of activities of social enterprises in general, as indicated by the European Commission (Table 2), has expanded, along with the territory where they are developed. Initially, the traditional spaces of generation and action of social enterprises tended to be in urban contexts, with some experiences in rural areas. Pinch and Sunley (2016, p. 1290) observed that the urban context offered “key benefits of agglomeration” to social enterprises that enable access to demand for “goods and services together with institutional support, funding and commercial contracts, as well as access to both formal and informal networks that can provide a wide range of knowledge and mutual support.” However, social enterprises have also brought about a very interesting phenomenon of recovery of economic activities and through another model of local development. In this sense, Olmedo et al. (2021, p. 1) indicated that “rural social enterprises are increasingly recognized as organizations that contribute to local development by providing goods and/or services to meet community needs and by fostering inclusive social and governance relations.”

The second trend is a paradigm shift in the concept of capitalist enterprises. This proposed change takes the form of different transformation levels in the capitalist

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<sup>53</sup>Law 44/2007, de 13 de diciembre, para la regulación del régimen de las empresas de inserción.

<sup>54</sup>Royal Decree 2273/1985, of 4 December 1985, approving the regulations for special employment centers as defined in Article 42 of Law 13/1982, of 7 April 1982, on the social integration of the disabled.

<sup>55</sup>Marcuello et al. (2008).

<sup>56</sup>Borzaga (1996), p. 209.

<sup>57</sup>Thomas (2004), p. 243.

model. Following the example of France in 2019, which enacted Law n° 2019-486 on May 22, the category of “*Entreprise solidaire d’utilité sociale (ESUS)*” was created to monitor the growth and transformation of companies. It has allowed the identification of social entrepreneurs whose activity is oriented in a dominant way toward the search for a significant social impact. ESUS approval notably favors social entrepreneurs’ access to equity financing. This law is in line with the recognition of other types of companies, such as benefit corporations, public benefit corporations, and social purpose corporations introduced in the United States. Henderson (2021, pp. 838, 849) indicated that “solving the great problems of our time will require reimagining capitalism by balancing the power of the free market with capable, democratically accountable government and strong civil society” and insisted on “firms to be committed to more than simple profit maximization.” In Spain, following the growth of the B-corp and “impact ecosystem,” campaigners have called for legislation on companies with a purpose and the creation of a new legal figure (“*Sociedades de Beneficio e Interés Común*”) following the French model.<sup>58</sup>

However, a number of important issues need to be taken into account in this necessary transformation of the capitalist enterprise to bring about a paradigm shift. For one, company boards of directors should include workers and even representatives of civil society. Other issues are concerned about ensuring that the distribution of profits clearly leads to an improvement in working conditions and in the territories where the company operates, as well as penalizing undesirable behaviors, such as abuse of power, job insecurity, and economic activities that negatively impact the environment.

## 5 Conclusions

The concept of social enterprises has received wide attention from practitioners, policy makers, and academic researchers. Different ways of understanding enterprise models have emerged since the beginning of the 1990s, but two perspectives have dominated the discourse: the Anglo-Saxon and continental European models. Each highlights different structural features of social enterprises, which can be categorized into four general models.<sup>59, 60</sup> The first is the “commercial non-profit” model that emerged in the 1980s within a context of austerity and reduction of public revenues, formed through the development of new market-based business strategies by non-profit entities in the United States for financing the social activities they had been implementing. Second, the “social mission-oriented enterprise” model incorporates

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<sup>58</sup><https://www.bcorpspain.es/blog/mesa-redonda-manana> and <https://www.empresasconproposito.net/>.

<sup>59</sup>Defourny and Nyssens (2017).

<sup>60</sup>Chaves and Monzón (2018).



and prioritizes social responsibility and social issues within the objectives of the company. In this way, these enterprises add the social mission to the economic mission that has traditionally been linked to commercial enterprises, whatever their legal form is. The third is the “social entrepreneur” model, which concretizes the “social innovation” approach and which has been promoted especially through the Ashoka Foundation. The last is the European model defined by EMES—private nonprofit organizations that provide goods and services directly related to their explicit objective of benefiting the community. These are based on collective dynamics in a way that involves different stakeholders in their governing bodies, are autonomous entities, and bear risks related to their economic activity.

The term social enterprise remains an evolving concept and is influenced by the economic model from which it emerges. At present, these enterprises face the urgent need to address the problems generated by globalization. These problems can be seen in the dramatic increase in inequality, more intense and global-scale economic instability, socio-labor instability of territories, and the global weakening of democracy. Faced with this situation, companies are fundamental actors in both the generation of these problems and their solutions. In this sense, society has an urgent need for a paradigm shift in the conception and function of business. Thus, social enterprises are increasingly necessary in terms of the role they can play, owing to their characteristics, democratic management model, and principles and values, as pointed out by the European Commission. Meanwhile, the role and contribution of B-corps, or companies with a purpose, remain very relevant. Nonetheless, these new business models must incorporate elements that include worker participation and a change in the profit distribution model, not only in terms of capital ownership but also with the participation of stakeholders and the penalization of undesirable behavior in the labor, social, and environmental aspects.

Finally, social enterprises, especially those under the European-continental approach, can be promoted to democratize the economy. The inclusion of the governance and ownership dimensions points to the need to give people the ability to be the protagonists of their own economic decisions. This is a key issue that should be addressed by all other models and approaches to social enterprises.

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