

An alternative framework for the analysis of social enterprises[☆]



Kazuhiko Mikami^{*}

Department of Applied Economics, University of Hyogo, 8-2-1 Gakuen Nishi Machi, Nishi Ward, Kobe, Hyogo 651-2197, Japan

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ABSTRACT

Enterprises are usually classified according to two criteria: ownership (public or private) and objectives (for-profit or not-for-profit). Social enterprises, such as nonprofit organizations, cooperatives, and mutual societies, are categorized under the private, not-for-profit sector (the third sector), in contrast with the public sector (the first sector) and the private, for-profit sector (the second sector). In this study, we reconsider this traditional trichotomy and modify it to develop an alternative characterization of social enterprises, along with for-profit and public enterprises, on the basis of a single criterion, i.e., ownership of enterprise. As a tentative conclusion, we argue that the characteristics of social enterprises are not uniform, and that the differences of social enterprises from for-profit and public enterprises are not necessarily qualitative but more often a matter of degree.

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1. Introduction

Many efforts have been made to characterize social enterprises, such as nonprofit organizations, cooperatives, and mutual societies, and define their roles in the market economy (Defourny and Campos, 1992; Salamon and Anheier, 1996; UK Department of Trade and Industry, 2002). According to the traditional two-dimensional typology of enterprises based on *ownership* (public or private) and *objectives* (for-profit or not-for-profit), social enterprises are characterized as private, not-for-profit enterprises (Table 1 and Fig. 1). From this standpoint, social enterprises are referred to as the third sector vis-à-vis the first sector, which comprises public enterprises (i.e., central and local governments, and their agencies), and the second sector, which comprises private, for-profit enterprises. Thus, the role of social enterprises has been discussed in relation to the unsatisfactory performance of for-profit and public enterprises, often with such phrases as “market and government failure,” “between markets and politics,”

or “neither market nor state.” Considering the predominance of for-profit and public enterprises in modern capitalist economies, it seems quite natural to view social enterprises in this manner.

From a purely economic point of view, however, these traditional characterizations of social enterprises do not always seem appropriate, particularly for the purpose of exploring the function and role of social enterprises in the market system. In the first place, there seems to be confusion about the classification of enterprises based on ownership and objectives. This is because ownership and objectives are not necessarily independent concepts, but rather they form a kind of cause-and-effect relationship. That is, the structure of ownership often determines the objective of the enterprise.

In the marketplace, investors, employees, customers, and all other market participants behave so as to maximize their own utility. On this premise, if ownership of an enterprise is granted to investors, the firm comes to have a for-profit nature. Alternatively, if ownership is given to individuals other than investors, such as employees, customers, or the general public, the firm comes to have a not-for-profit nature. Thus, objectives can be a *result* of the allocation of ownership rather than an independent *cause* that differentiates between types of enterprise.

For this reason, in this study, we adopt the concept of ownership as the sole primitive criterion for characterizing and classifying types of enterprises. We will then recognize that the nature of

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^{*} Tel.: +81 78 794 7052; fax: +81 78 794 6166.
E-mail address: mikami@econ.u-hyogo.ac.jp

Table 1
Traditional classification of enterprises.

		Objectives	
		For-profit	Not-for-profit
Ownership	Public		Public Enterprise (First Sector)
	Private	For-profit Enterprise (Second Sector)	Social Enterprise (Third Sector)

Note: Developed from Fig. 1 of Grassl (2012) and the European Commission (2013).

social enterprises is not homogeneous. In addition, we will find some similarities between social enterprises and for-profit as well as public enterprises. Hence, we argue that it may not necessarily be appropriate to identify social enterprises as a separate category, totally distinct from for-profit and public enterprises.

These arguments seem to be in line with some of the recent developments in the conceptual study of social enterprises.

Peredo and McLean (2006) examine the concepts of social entrepreneurship that are commonly used in theory and practice. They consider various types of enterprises that assign different degrees of priority to the goal of increasing social value. The types of enterprises they consider range from nonprofit organizations, which are the purest form of social enterprise, to for-profit businesses that use the profits to achieve their social goals, and to for-profit businesses that maintain social goals as a means to increase their private profits. Based on these observations, one of their conclusions is that there are no clear borders between the for-profit and not-for-profit sectors.

Indeed, such a viewpoint on social enterprises in relation to public and for-profit enterprises seems to have practical applicability. Based on empirical observations, Peredo and Chrisman (2006) propose the concept of community-based enterprise in the area of regional development policy. A community-based enterprise is, they argue, “a community acting corporately as both entrepreneur and enterprise in pursuit of the common good” (p. 310), which integrates the features of public, for-profit, and social enterprises in a single organization. Apparently, it is difficult to analyze this type of enterprise in the traditional framework based on the tripartite classification of enterprises.

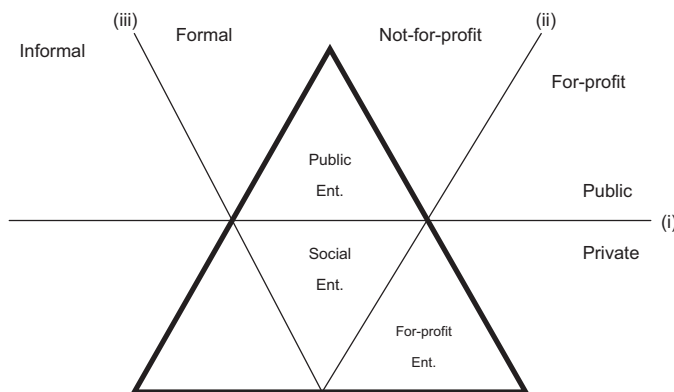


Fig. 1. Traditional classification of enterprises. Note: Modified and simplified from Fig. 1 of Pestoff (1992). The large triangle shows the set of all types of enterprises, which is divided by three lines representing the borders between (i) public and private, (ii) for-profit and not-for-profit, and (iii) formal and informal. In this figure, the third sector is given by the inner triangle that comprises private, not-for-profit, and formal enterprises. Pestoff (1992) argues that private, not-for-profit, and informal enterprises include organizations such as communities and households.

The rest of this paper is structured as follows. Section 2 introduces a tetrahedron representing the enterprise ownership structure on which social enterprises, as well as for-profit and public enterprises, are characterized. Section 3 illustrates different types of enterprises in their pure forms on the tetrahedron, while Section 4 illustrates those enterprise types in a more practical setting. Section 5 considers some hybrid enterprises that are observed in society. Section 6 concludes the paper.

2. Enterprise ownership tetrahedron

The types of enterprises we examine in this study include public enterprises (the first sector), for-profit enterprises (the second sector), and worker cooperatives, consumer cooperatives, and nonprofit organizations (the third sector).¹ Corresponding to these five types of enterprises, we consider four groups of individuals: investors, who provide financial capital to the enterprise; employees, who provide labor to the enterprise; customers, who consume the product of the enterprise; and the general public, which we shall henceforth simply call *society*.² We will then characterize enterprises according to the allocation of ownership rights to the four groups of individuals. For this purpose, we introduce a regular tetrahedron (a four-sided solid where each side is an equilateral triangle) of height 1, as shown in Fig. 2 that illustrates the ownership structure of enterprises.

The tetrahedron is structured as follows. Let $\theta_I, \theta_E, \theta_C,$ and θ_S be the ownership shares of investors, employees, customers, and society, respectively, where $0 \leq \theta_j \leq 1 (j = I, E, C, S)$. The investors' ownership share θ_I is set at 0 on triangle ECS, rises as the vertical distance from triangle ECS increases, and reaches 1 at vertex I. (Recall that the height of the tetrahedron is 1.) Similarly, the employees' ownership share θ_E is set at 0 on triangle ICS and rises to 1 at vertex E, while the customers' ownership share θ_C is set at 0 on triangle IES and rises to 1 at vertex C. Furthermore, society's ownership share θ_S is set at 0 on triangle IEC and rises to 1 at vertex S. Because the height of the tetrahedron is 1, we have

$$\theta_I + \theta_E + \theta_C + \theta_S = 1.$$

Thus, each point on and inside the tetrahedron indicates a certain ownership structure and hence represents a specific type of

¹ Here, we do not explicitly discuss supplier cooperatives, such as agricultural cooperatives owned by farmers who provide them with agricultural products. From an economic perspective, however, the ownership structure of supplier cooperatives is analogous to that of worker cooperatives in the sense that these cooperatives are commonly owned by the providers of the inputs.

² Investors, employees, and customers are each a part of the general public of society. However, the groups of investors, employees, and customers for a single private enterprise are usually substantially smaller in size compared to the whole society. For this reason, we ignore the overlap between society and the group of investors, employees, or customers, and deal with them as distinct groupings of individuals.

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