Social Economy Enterprises: The Third/Social Economy (TSE) Sector Classification for Advancing Shared Values for the Common Good

Empresas de economía social: la clasificación del tercer sector de la economía (TSE) para promover valores compartidos para el bien común

Abstract:

This article provides a panoramic overview of the challenges and advancements made regarding recent classifications of Third/Social Economy Sector both in Europe and internationally. The author examines the values and characteristics of social enterprise/hybrid organizations integrating the promotion of profit-business values along with community-social benefits. In reference to the existing literature and practices in the social enterprise arena, the new classifications provide an opportunity for scaling up the impact of social/benefit enterprises in order to advance the recognition of social economy values through appropriate investments and policies. These classifications improve our understanding of social innovation and sustainable social impact solutions relevant to the advancement of the social enterprise ecosystems in Mexico and Latin America.
Resumen
Este artículo proporciona una descripción panorámica de los desafíos y avances en las clasificaciones recientes del tercer sector, en Europa e internacionalmente. El autor examina los valores y las características de las empresas sociales u organizaciones híbridas que integran fines de lucro con beneficios sociales para la comunidad. En referencia a la literatura y las prácticas existentes en el ámbito de la empresa social, las nuevas clasificaciones brindan una oportunidad para ampliar el impacto de las empresas de beneficio social con el fin de promover el reconocimiento de los valores de la economía social mediante inversiones y políticas apropiadas. Estas clasificaciones mejoran nuestra comprensión de la innovación social y las soluciones sostenibles de impacto social relevantes para el avance de los ecosistemas de empresas sociales en México y América Latina.

Keywords: Third Sector, Social Economy, Classification.
Palabras clave: Tercer sector, Economía social, Clasificación.

Introduction
In 2015 at the United Nations in New York, world leaders made a commitment to work collaboratively for a better world using the Sustainable Development Goals (SDG) and embarking on the 2030 Agenda. The 2030 Agenda aims to provide achievable solutions for shared values and common benefits for people, planet and prosperity. It also recognizes the importance of strengthening appropriate policies and institutions to promote peace and justice. These 17 common goals with their 169 targets and 234 indicators provide a blueprint for innovative actions and policy priorities. They are a call to think outside the box of our economic sectors and short-term national priorities. It is an agenda for investing our efforts for social and environmental impacts through appropriate sustainable development mechanisms that, as defined in the 1987 publication of Our Common Future, should “ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland, Khalid, Agnelli, Al-Athel, Chidzero, Fadika, Hauff, Lang, Shijun, Botero, & Singh, p. 16).

In spite of these advancements for a common agenda to promote better conditions for all, many world problems continue to challenge the well-being of our communities and threat the survival of the human race due to climate change, extreme nationalism, growing inequalities, unsustainable consumption, and other current struggles. In 2019, as the world commemorates 500 years of Leonardo da Vinci’s innovations and the impact of the Renaissance on Europe and beyond, we have an opportunity to pay attention to some other contemporary transformations which can help create a shared and beneficial impact to the welfare of our societies and the wellbeing of our present and future communities. We are also commemorating 75 years from the international efforts to end the Fascist/Nazism threats in WWII and the establishment of mechanisms of peace, human rights, international law and human development in the Charter of the United Nations drafted and signed at 1945 San Francisco Conference. Ezequiel Padilla, Chairman of the Mexico delegation, along with other 19 Latin American participant countries, signed the United Nations Charter at the Veterans’ War Memorial Building ceremony on 26 June 1945.
While global problems will continue to require international, coordinated, multisector, and interdisciplinary solutions, the recent advancements in the classifications of the Third/Social Economy (TSE) sector are important and promising. Emerged from the solicitation of academics who have been reflecting on the economic, social and governance characteristics of hybrid/social enterprise organizations (Billis, 2010; Defourny & Nyssens, 2017; Haugh & Lyon, 2014), the TSE classifications (Enjolras, Salamon, Sivesind, & Zimmer, 2018). Although sector classification may be perceived as an insignificant technical or academic subject far away from the global challenges we face, its actual implementation could have a significant impact across economic, social, environmental and good governance outcomes. As Nobel Prize Laureates Joseph Stiglitz and Amartya Sen explain in The Commission on the Measurement of Economic Performance and Social Progress (CMEPSP) which encouraged the European Union’s prioritizations for the Social Economy (SE):

While a long tradition of philosophical thought has addressed the issues of what gives life its quality, recent advances in research have led to measures that are both new and credible. This research suggests that the need to move beyond measures of economic resources is not limited to developing countries (the traditional focus of much work on “human development” in the past) but is even more salient for rich industrialised countries. These measures, while not replacing conventional economic indicators, provide an opportunity to enrich policy discussions and to inform people’s view of the conditions of the communities where they live. More importantly, the new measures now have the potential to move from research to standard statistical practice” (Stiglitz, Sen, & Fitoussi, 2009, p. 22).

In 2008, responding to the French President Nicholas Sarkozy concerns over the inadequate statistical measurement of the economy and the society, The CMEPSP identified the limits of GDP and suggested a path for more relevant indicators for social progress. They recognized the importance of selecting appropriate measurements for having a more realistic picture of the reality and therefore making more informed decisions;

What we measure affects what we do; and if our measurements are flawed, decisions may be distorted. Choices between promoting GDP and protecting the environment may be false choices, once environmental degradation is appropriately included in our measurement of economic performance. So too, we often draw inferences about what are good policies by looking at what policies have promoted economic growth; but if our metrics of performance are flawed, so too may be the inferences that we draw (Stiglitz, Sen, & Fitoussi, 2009, p. 3).

We cannot change what we cannot measure and we cannot measure properly without proper classification of what should and should not be included. This has been a concern for the EU political economies and the results of these processes should be relevant for the advancement of social economy practices and policies anywhere. As Kofi Annan suggested with the establishment of the United Nations Global Compact (UNGC) parallel to the launching of the Millennium Development Goals (MDG) in the year 2000, we cannot encourage the active participation of the private sector to solve these complex global problems without proper criteria of discernment for the measurement of sustainable social impact. In “greenwashing” we want to avoid to make superficial unsubstantiated or misleading claims about the environmental benefits of a product,
service, technology or company practice. At the same time, we want to avoid the “blue-washing” of those enterprises and entrepreneurs who claim to be social and environmental benefits without proper identifications and measurements of their contributions, benefits, and impact. This paper introduces the advancements in the classification of the TSE as a response to the need to have innovative, strategic, scalable, and sustainable social impact for true social progress, sustainable development and the well-being (buen vivir) of our communities.

The TSE Sector Classification

Dr. Lester Salamon, Director of the Center for Civil Society Studies (CCSS) at Johns Hopkins University, is a well-known global expert on the non-profit sector. During the last forty years, Dr. Salamon has conceived, organized, and directed what is known today as the systematization of the nonprofit sector. Through award-winning Global Civil Society series of books, Dr. Salamon has been instrumental in leading the classification of Nonprofit Institutions (NPI) in their five inclusion/exclusions characteristics (Salamon & Sokolowski, 2015; Salamon, Sokolowski, & List, 2003):

1. **NPI are organized**, meaning they are formal or informal entities with some meaningful degree of structure and permanence, whether legally constituted and registered or not.

2. **NPI are private**, meaning they are institutionally separate from government and with the ability to cease operations on their own authority.

3. **NPI are non-profit-distributing**, meaning they are prohibited to distribute generated profits to their owners, directors, stakeholders or investors.

4. **NPI are self-governing**, meaning they are able to control their own activities governing their own general policies and transactions.

5. **NPI are noncompulsory**, meaning they involve some meaningful degree of voluntary participation.

These defining characteristics were later incorporated and used by the United Nations Statistics Division (UNSD) and the International Labour Organization (ILO) in their reporting on economic sectors’ contributions (United Nations, 2003; International Labour Organization, 2011). The NPI characteristics worked well in the United States where the Internal Revenue Services (IRS) classified 35 kinds of organizational structures, the general perception and prioritization was given to the tax-exempt nonprofit-charity structure known as 501(c)3s (Internal Revenue Services, 2019). The NPI sector characteristics also worked well in the American economic system which generally privileges individuals over collective values, low-taxes over government assistance, and philanthropic contributions to charities over incentivized social-economic plans. However, these characteristics were perceived too strict and inadequately captured the diversity of the civil society sector acting differently depending on the government sector and private sector differing levels of participation and engagement in society. Organizational structures labeled as Government Organized Nongovernmental Organizations (GONGO), or Business Organized Nongovernmental
Organizations (BONGO), were excluded from the economic accounts for the NPI sector. This strict classification also did not include the economic contributions provided by many European hybrid organizational configurations such as social enterprises, mutual societies, social cooperatives, and community interest companies. Social sector scholars engaged in the ongoing comparison of global civil society often recognized inter-sector hybrid expressions that stretched these definitions and challenged them to find new paradigms defining social innovation, social enterprises, and social investing (Salamon, 2014).

In 2014, Dr. Salamon began a collaboration with European scholars for the Third Sector Impact (TSI), a research project aimed at understanding the scope, scale, impact and social economy policy implications of the third sector in Europe. In 2018, they published a significant study from this process entitled *The Third Sector as A Renewable Resource for Europe: Concepts, Impacts, Challenges and Opportunities* (Enjolras, Salamon, Sivesind, & Zimmer, 2018). The study reports the TSI project and recognizes the space for Third Sectors Organizations (TSO) in relation to Nonprofit Organizations (NPO), government sector, private sector and the volunteer (household) sector not providing a not-significant and not-accounted economic contribution. The NPO plus the TSO make up the TSE sector. Dr. Salamon took the responsibility to guide the TSI project’s components of “concepts and definitions” and the “size and scope”. The conceptualization of the third sector was a critical first step as it clearly influenced the other three steps for measuring the sector’s size, its impact, and its influence on socio-economic policy implementations.

While maintaining the NPI organizational classification the enlarged TSE characteristics drop the contentious third characteristics prohibiting any level of profit distributions. Instead, they identified these TSE/TSO organizational characteristics:

1. **TSE/TSO must have a clear social mission**, meaning they must have an explicit and legally binding social mission.

2. **TSE/TSO must have a limited profit distribution**, meaning they must be prohibited from distributing any more than 50% of any profit to outside stakeholders.

3. **TSE/TSO must have a capital lock**, meaning they must operate under a capital lock that requires that all retained surplus must be used to support the organization or to support other entities with similar social purposes.

4. **TSE/TSO must have an inclusive stakeholder policy**, meaning they must include at least 30% of individuals with specified special needs among their employees and/or beneficiaries.

5. **TSE/TSO must avoid proportional profit distribution**, meaning they must be prohibited from distributing any profit they may earn in proportion to capital invested or fees paid.
These newly identified TSE/TSO characteristics are also generating different points of view (Defourny, Grønbjerg, Meijs, Nyssens, & Yamauchi, 2016), the emerging consensus includes these three fundamental characteristics:

1. **TSE/TSO must be private**, meaning they organized as some forms of individual or collective action outside the sphere or control of government;

2. **TSE/TSO must have a Public purpose**, meaning they are undertaken primarily to create public goods, something of value primarily to the broader community or to persons other than oneself or one’s family, and not primarily for financial gain; exhibiting some element of solidarity with others;

3. **TSE/TSO must be an expression of free choice**, meaning these organizational actions are pursued without compulsion (Enjolras, Salamon, Sivesind, & Zimmer, 2018, p. 25).

The TSI project team also agreed that TSE sector institutions must include those already classifiable as NPI according to the taxonomy of the United Nations Satellite Account on Non-profit and Related Institutions and Volunteer Work (United Nations, 2003 & 2018). They also agreed on the TSE inclusion of cooperatives, mutual, social enterprises and beyond NPI and informal ways of economic contributions as in non-government recognized Civil Society Organizations (CSO) in the ‘household’ sector of the economy (Enjolras, Salamon, Sivesind, & Zimmer, 2018, pp. 25-28).

Though these conversations about the classification of third sector organizations and of third sector/social economy shared values will probably continue for years to come, these advancements are significant as they open up the conversations beyond American and European experiences (Defourny & Nyssens, 2010). They offer elements that can help us measure the economic contributions of the TSE sector including social enterprises, mutual associations, and social cooperatives. It expands the horizons for nonprofit sector research beyond charities and voluntarism and in between traditional business and government specific agencies (Salamon & Sokolowski, 2016). It opens up the conversations for social innovation solutions for sustainable development, promoting collective impact, benefiting the common good, and avoiding the “nonprofit cycle of starvation” (Gregory & Howard, 2009). It also helps us to advance dialogue about the criteria differentiating social enterprise solutions from social businesses, benefit corporations, and socially responsible business. As demonstrated in Figure 1, the classification of the TSE is further helpful for the integration or social impact investing to scale solutions for social/environmental impact. The typology of organizations in this spectrum reflects the shared spaces and hybrid values between traditional charity/philanthropic values and business/market values.
The Social Enterprise Classification

In 2016, Young, Searing, & Brewer proposed a provocative metaphor to describe social enterprises: a zoo. Just like in a zoo where different types of animals sought different things, behaved in different ways and may (or may not) interact with one another in either competitive and complementary ways, social enterprises can also express themselves in unique ways as they combine social and market goals. At the same time, European social sector scholars have been advancing the TSE sector classification and testing various SEO models across national systems (Defourny, Nyssens, & Brolis, 2019). Numerous studies have emerged shedding light on the social enterprise/third sector classification debate (Kerlin, 2006 & 2013). In addition, the European Union (EU) and the European Commission (EC), in particular, have been vital forces in identifying and implementing socio-economic policies to promote shared economic models producing clear benefits across sectors, national systems and community experiences (Monzón & Chaves, 2012). Ongoing mapping studies on social enterprises in Europe are produced by the EC in collaboration with the European Research Institute on Cooperative and Social Enterprises (EURICSE). These exemplifications across countries follow the classifications and definitions of social enterprises emerged from the 2011 European Commission’s Social Business Initiative (EC-SBI):

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 open and responsible manner and, in particular, involves employees, consumers, and stakeholders affected by its commercial activities (European Commission, 2019).

\[\text{Figure 1. Classification of TSE Space.}
\text{Source. Author’s creation.}\]
The EC-SBI definition incorporates what they identify as three key dimensions of a social enterprise:

1. **SEO have an entrepreneurship dimension**, meaning they show the typical characteristics that are shared by all enterprises.

2. **SEO have a social dimension**, meaning they pursue an explicit social aim with the primacy of the social aim over commercial/profit objectives.

3. **SEO have a governance dimension**, meaning they have specific governance structures to safeguard their social missions.

These definitions reflect some of the core elements indicated in the TSE sector early classifications. The European perspective adds a third-dimension, governance, to determine their inclusion (or not) into a TSE sector.

1. **TSE/SEO has an Economic Activity**, meaning that it must engage in a continuous activity of production and/or exchange of goods and/or services.

2. **TSE/SEO has a Social Aim**, meaning it pursues an explicit and primary social aim that benefits the society.

3. **TSE/SEO has Limited Profit Distribution**, meaning it must have limits on distribution of profits and/or assets: the purpose of such limits is to prioritize the social aim over profit making.

4. **TSE/SEO has Independence**, meaning it must be an independent organizational autonomy from the State and other traditional for-profit organizations. This means that a social enterprise must not be managed, directly or indirectly, by public authorities or by for-profit organizations; and have the right of ‘voice and exit’ (the right to take up their own position as well as the right to terminate their activity.

5. **TSE/SEO has Inclusive Governance**, meaning it must have an inclusive governance characterized by participative and/or democratic decision-making processes (European Commission, 2014).

These recent advancements in the classification criteria for TSE/SEO are important as they suggest a good direction toward proper measurements and reporting. A more precise formulation of social-sector organizations generates effective measurable impact with shared benefits across social/community values, economic/financial values and governance/policies values. Too often the social enterprise arena is populated by “social entrepreneur heroes” with good and noble intentions but without measurement of their collective impacts and contributions to a
shared social economy (Fowler, Coffey, & Dixon-Fowler, 2017; Quarter, Ryan, & Chan, 2014). The approach that Ashoka and Skoll Foundation have in the recognition and empowerment of social innovators and social entrepreneurs is commendable, but the journey needs to carry on toward more collective measurable and systemic impact (Mato-Santiso & Rey-Garcaa, 2019). As indicated in Figure 2, the TSE/SOE classification indicates the importance of identifying a core set of identity for shared values and common benefits in between but also beyond profit and for prosperity. While measurements linked to certifications are a good start to promoting Triple Bottom Line (TBL) approaches, they are also limited without proper policies and governance structures. The B-Corp Certification with its B-Impact Assessment is an important advancement similar to other approaches like other mechanisms (ESG, GRI, UNGC, PRI, FT) that attempts to engage corporations and businesses into the social/environmental global shared responsibility. However, the B-Lab certification model is inadequate without proper legal framework formulations as in the case of Benefit Corporations. Certifications can help to inspire a value driven approach but they cannot protect an organization’s social mission from shareholder greed.

**Figure 2.** Towards a Common Benefits Classification.
**Source.** Author’s creation.

**The Social Economy Agenda**

The European inspired policy implementations for the promotion of social economy organizational models and practices go beyond CSR and TBL. They should inspire scholars and practitioners alike to think beyond the duality of private profits v. shared benefits. They should inspire national socio-economic policies to create, adapt and implement additional organizational structures that promote shared benefits. The Italian government who pioneered the Social Cooperative Law 381 in 1991 has become instrumental in the expansion of the social economy in Italy while benefiting the EU/EC prioritization of SE policies (Thomas, 2004; Borzaga & Santuari, 2001).
In 2015, the Italian government followed the inspiration of the Benefit Corporation (BC) model in USA and created their own distinct classification as “Societa Benefit” (SB). The Italian SB law is similar to the American BC model as both require I) the legal duty to create general public benefit in addition to financial return, II) to carry out its activities in a responsible, sustainable and transparent way in favor of persons, communities, environment, cultural and social activities, associations and other stakeholders (the “Beneficiaries”), and III) the impact of the activities must be assessed annually by the directors with a written report. However, the Italian law also requires the SB to use a “third party standard” in order to assess the impact generated by the benefit corporation with respect to common benefit. These standards are to guarantee the transparency, comprehensiveness, and credibility of the report. This reflects an emphasis toward standardized measurable outcomes and shared benefits as in the EU requirement for any large corporation to submit an annual report under the Global Reporting Initiative (GRI) guidelines. As stated in the Directive 2014/95/EUA:

Indeed, disclosure of non-financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection. In this context, disclosure of non-financial information helps the measuring, monitoring and managing of undertakings’ performance and their impact on society (Corporate Sustainability, p. 6).

Measuring the Environmental, Social and Good Governance (ESG) contributions in the economy is not just for ranking socially responsible investing. It is also important for measuring sector contributions of a country’s economic outputs as indicated and recommended in the 2008 SNA or System of National Accounts. The Satellite Account on Nonprofit and Related Institutions and Volunteer Work (2018) is an update of the Handbook on Non-Profit Institutions in the System of National Accounts (United Nations, 2003) and it reflects the updated classifications from the NPI sector to the TSE sector. These more accurate accounts in the sector classifications of economic outputs represent a step toward a more comprehensive and integrated measurement of social progress, human development, and sustainable development. To establish if a social enterprise and a social business is contributing to the social progress of a country we need to have interlinked matrices measuring well-being, human needs, and shared opportunities. It needs to map its outcomes and impact to the targeted priorities of the Sustainable Development Goals (SDG) and of a national agenda for Policies for shared values and common good-SDG agenda. As Michael Porter (2015) stated at the World Economic Forum: “Economic growth has lifted hundreds of millions of people out of poverty and improved the lives of many more over the last half-century. Yet it is increasingly evident that a model of human development based on economic progress alone is incomplete. A society which fails to address basic human needs, equip citizens to improve their quality of life, protect the environment, and provide an opportunity for many of its citizens is not succeeding. Inclusive growth requires both economic and social progress”. The 2030 Agenda for Sustainable Development emphasizes the need to “achieve sustainable development in its three dimensions —economic, social and environmental— in a balanced and integrated manner” (United Nations 2005, p. 2). This means that business-as-usual approaches are no longer an option. We need to encourage institutional entrepreneurship to develop economic policies, business legal structures for transformative, innovative and inclusive approaches for shared values and common benefits collective impacts.
Implications and Conclusions

Social economy enterprises are needed for the advancement of a policy agenda for a sustainable, equitable and more possible and better futures for all. The TSE sector classification is a positive advancement toward the sustainable social and participatory, but it’s not enough. It requires a concerted approach that favors social value shared space solutions (Figure 1) along social economy shared benefits (Figure 2) that would develop social entrepreneurs and social enterprises. In other words, the social economy can no longer be considered a third wheel (Pierce, 2009) and it can no longer be considered as an elective in business education.

Furthermore, academic institutions possess an important social responsibility. Business schools and management programs, in particular, should reassess their missions to educate leaders and managers with sustainability mindsets and social reporting capacities. They should reset their priorities toward purpose and values detailed in the Principles Responsible Management Education: to (1) develop the capabilities of students to be future generators of sustainable value for business and society at large and to work for an inclusive and sustainable global economy and to (2) incorporate into academic activities, curricula, and organizational practices the values of global social responsibility as portrayed in international initiatives such as the United Nations Global Compact. Course and programs in universities should reassess their portrait of hybrid SEO or benefit societies/corporations (SB/BC) in between traditional business structures and nonprofit, philanthropic and voluntary responses to social problems. Business schools and management programs should audit the competencies they develop in relation to the social economy and social enterprise development (Kato, Ashley, & Weaver, 2018).

Academia shares its responsibility to create mindsets and capacities in current and future entrepreneurs who can strive for shared values and common benefits. When government, private sector, and civil society does not provide adequate channels for the incubating and accelerating social innovation solutions, academia should step in. Academic social responsibility is about promoting appropriate and affordable education for social impact. Mexico is an example; in 2012, the Social and Solidarity Economy Act created the National Institute of Social Economy from the preexisting National Fund for the Support of Solidarity Enterprises. The goal of this government initiative is to advance the development of social economy activities. While this represents a very good step, Mexico is still behind in comparison with European and American contexts as it still must develop appropriate legal frameworks and fiscal policies to truly support organizational specific advancements for the social economy. In this context, it is crucial that Mexican academic institutions accelerate this process with teaching, research, and engagement activities in order to advance the implementation of social-economic policies, structures, and mechanisms. The TSE/SEO characteristics are not just advancements in American-European intellectual cooperation. They are stepping stones for expanding social-economic creativities to reflect the rich Latin America and Mexican experience with community-based organizations. The new frontier for the social economy could be the LAC region as the context where economic, social, political and environmental values could converge to provide shared benefit solutions for the well-being of its peoples.
Referencias


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