

For-profit social enterprises

For-profit businesses of all types realise that their business objectives now need to focus more on social and environmental sustainability, while still earning the revenues and profits that ensure economic sustainability. You will learn more about these business objectives in [Subtopic 1.3 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-36846\)](#).

In the meantime, it can be helpful to think about where businesses stand in the process of moving towards greater social and environmental responsibility by using a continuum, as shown in **Figure 1**.

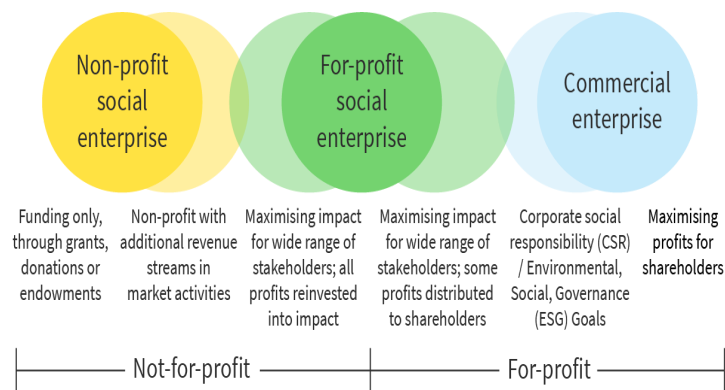


Figure 1. Businesses can be positioned along a continuum.

Some businesses are already highly focused on social and environmental objectives and have been given the label social enterprise. A social enterprise is any organisation that has a social and environmental purpose at its core; it describes the primary purpose of a business, not its legal form. Social enterprises are hybrid organisations that combine the best of the private and public sectors. They are sometimes referred to as a third sector. The term ‘social’ enterprise is a little misleading as many enterprises are also focused on environmental issues, and even those focused on social issues must work to meet human needs within planetary boundaries.

Main features of for-profit social enterprises

A for-profit social enterprise is a revenue and profit-making business, but it integrates social and/or environmental impact directly into its business model. It combines the efficiencies, innovation and financial resources that can come from for-profit businesses with the vision and values of social enterprises. Just like for-profit commercial enterprises, these social enterprises can come in the form of sole traders, partnerships, privately held companies or publicly held companies.

The profits of a for-profit social enterprise may be large or small, depending on the strength of demand for its products and how the business is organised. If the social enterprise is offering a good or service at a very low price to consumers in order to increase access, then profits may be low but its impact may be very high. If the social enterprise is paying above average wages, working to regenerate nature through its operations or exceeding other social responsibilities, its production costs could be higher, which could again reduce profits.

Unlike many for-profit commercial enterprises, for-profit social enterprises are judged less on their profits and more on their multi-stakeholder impact. In other words, they are judged on how they are distributing the value that the business generates. Most profits earned are reinvested in the business, to expand its positive impacts and distribute value further. Some profits, however, may also be distributed to the owners of the business, as with for-profit commercial enterprises.

Activity

Learner profile: Inquirers

Approaches to learning: Research skills (information literacy), Thinking skills (transfer)

N'Go (<https://ngo-shoes.com/en/>) Shoes, which produces ethical sneakers in Vietnam, is an example of a for-profit social enterprise.

Explore the N'Go website (<https://ngo-shoes.com/en/>) and watch the video below about the craftswomen who make part of the sneaker. Then answer the following questions:

1. For-profit social enterprises explicitly consider social and environmental sustainability in their business models. Which human needs (social sustainability) are being supported by N'Go? You may want to consider the inner ring of the Doughnut Economics Model from [Section 1.1.2 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-doughnut-economics-model-id-36830\)](#) or the social SDGs.
2. How is N'Go meeting its business responsibilities on environmental sustainability? To be specific, you may want to consider the planetary boundaries on the outer ring of the Doughnut Economics Model from [Section 1.1.2 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-doughnut-economics-model-id-36830\)](#).
3. For-profit social enterprises, even those that have B Corporation certification (explained below) like N'Go, are not perfect. Look at [the report that N'Go wrote about its carbon footprint](#) ([https://ngo-shoes.com/\(EN\)%20VDEF%20Impact%20carbone.pdf](https://ngo-shoes.com/(EN)%20VDEF%20Impact%20carbone.pdf)). How is the company planning to reduce its environmental impact even further in the future?

Meet up in Vietnam with our craftspeople - N'go



Video 1. N'Go Shoes is an example of a for-profit commercial enterprise.

In some countries, there are relatively new legal structures relating to for-profit social enterprises, which may set out how profits are distributed within the organisation. The Community Interest Company (CIC)

(<https://www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies>) in the UK and Entreprises à Mission

(<https://www.entreprisesamission.org/>) in France are examples. There are also certification schemes that can help for-profit businesses improve their credibility in the eyes of consumers and investors. The highest profile of these certification schemes is the (<https://www.bcorporation.net/en-us>) B Corporation (<https://www.bcorporation.net/en-us>) certification.

Activity

Learner profile: Inquirers

Approaches to learning: Research skills (information literacy)

Access the B Corporation website search page (<https://www.bcorporation.net/en-us/find-a-b-corp>) and find an example of a for-profit social enterprise from your own country.

1. Describe the business. What good or service does it make?
2. Explain how the business is meeting social and/or environmental objectives.
3. Research whether there is a legal structure or certification programme specific to your country for for-profit social enterprises.

Types of for-profit social enterprises

There are three types of for-profit social enterprises: private sector enterprises, public sector enterprises and cooperatives.

Private sector for-profit social enterprises

A private sector for-profit social enterprise produces goods and services that are typically sold in markets for a price by for-profit businesses. Many for-profit social enterprises operate in the private sector, meeting many and varied human needs. N'Go, the footwear business in the activity above, is an example. Another example is Aravind Eye Care (<https://aravind.org/>), hospitals together with Aurolab (manufacturer of equipment and materials) in India. Its mission is to provide affordable eye care services to people in need, for example affordable cataract surgeries.

Public sector for-profit social enterprises

A public sector for-profit social enterprise produces goods and services that are typically provided by the public sector. These social enterprises bid for contracts with regional or local governments, who outsource some essential services to for-profit businesses. An example of this is when a local municipality contracts a private firm to carry out recycling services. In some areas, governments contract out ambulance services to for-profit social enterprises.

By making such arrangements with for-profit companies, governments may be able to lower their costs and focus on other areas of public services. For their part, the businesses can look forward to consistent demand for the essential services they provide. However, governments must maintain some oversight to ensure that the service is being carried out as expected, and they must ensure that if the business runs into financial trouble, the public will not lose access to the service.



Figure 2. Some services that were traditionally supplied by the public sector are now supplied by for-profit social enterprises.

Credit: Pramote Polyamate, Getty Images

Cooperatives

A cooperative is a business that is owned by its members. These members run the organisation in their common interest, using democratic governance. All members participate in decision-making either directly by voting on important decisions or through representation, where members elect representatives to make decisions for them. Cooperatives typically have limited liability. According to the International Cooperative Alliance (<https://www.ica.coop/en/cooperatives/facts-and-figures>), there are more than three million cooperatives globally and more than 12% of people in the world belong to some type of cooperative. Cooperatives employ about 10% of workers worldwide.

Cooperatives can be classified either by the type of industry or by who owns and runs them. In terms of industries, the 300 largest cooperatives in the world are dominated by insurance, agriculture and wholesale and retail trade. However, cooperatives are also common in other industries such as banking, utilities, education, health care, and housing. In terms of ownership, cooperatives may be owned by producers, workers, consumers, residents or multiple stakeholders.

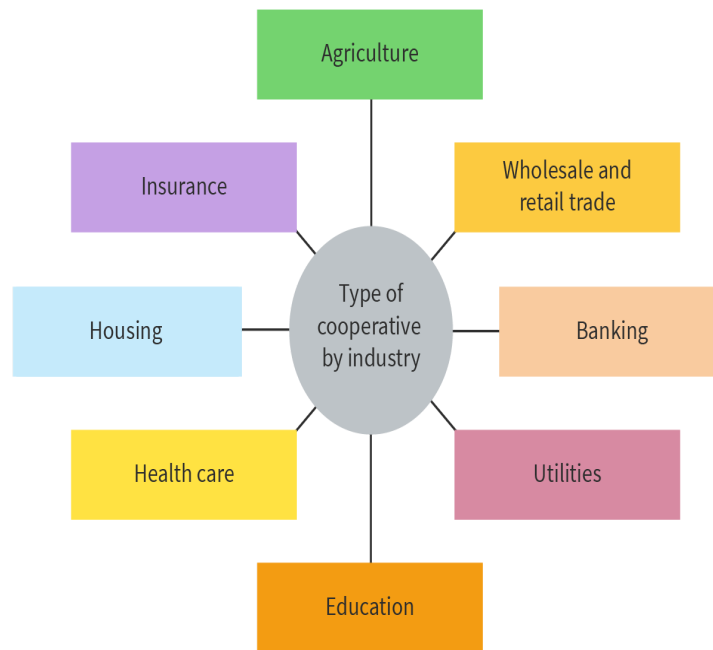


Figure 3. Cooperatives by industry.

You can see the diversity in cooperatives by looking more closely at agricultural cooperatives, which are created for a variety of reasons and can be owned by different stakeholders. Farm owners can form a cooperative to negotiate lower prices on inputs such as fertiliser and seeds by buying in bulk, or by buying expensive equipment together to share. They can also negotiate higher prices for their outputs by working together to equalise power with large grocery retailers. Some may even organise their own credit unions, to offer farmers lower interest rate loans when needed. One such credit union, the Credit Agricole in France, is the largest cooperative in the world as of 2021, but has moved far beyond providing banking services to farmers.

Other stakeholders can also own agricultural cooperatives. Workers on an individual farm may form a cooperative to share returns and risk. Agricultural cooperatives can also be owned by a combination of producers and consumers in Community Supported Agriculture (CSA). Through yearly membership/owner fees and monthly payments, consumers can receive a share of the farm's harvest, and they also share the risk. You may even have Community Supported Agriculture in or near where you live.

Case study

Originating in North Africa, argan trees are now being introduced into other areas that have hot, dry climates. Inside the fruit of the argan tree is a nut containing a kernel (seed), which can be used to produce a rich oil. Argan oil has traditionally

been used in medicine, cooking and cosmetics. More recently, argan oil has become a popular export, in demand for use primarily in skincare and haircare products.



Figure 4. Argan nuts are used to produce a valuable oil.

Credit: Jeremy Woodhouse, Getty Images

Breaking the argan nuts to reveal the kernels from which oil can be extracted is a difficult process that has not yet been mechanised successfully. So it is done by hand, most often by women. Over the last twenty years or so, cooperatives have been set up to manage the production and sale of argan oil. Women often run these organisations themselves, and may negotiate directly with international buyers of their oil. The cooperatives not only provide employment in rural areas but they also empower women, many of whom are earning incomes for the first time. The development of argan oil also benefits the environment by increasing the value of these trees that protect against desertification and that were previously often cut down for wood. The oil may be priced at the equivalent of 30–50 USD per litre in local areas, but on international markets it can sell for up to 250 USD per litre.

Most argan oil is produced by cooperatives of Berber women near the Moroccan cities of Essaouira, Taroudant and Agadir. The Taitmaitine cooperative near Taroudant employs about 100 women to produce the argan oil. They receive a salary, health insurance, childcare and literacy instruction.

The video below explains how the cooperative started and its operation.

Morocco: Women get together to sell Argan oil | Global ...



Video 2. The Taitmaitine cooperative and how it started.

Questions

1. Describe the type of cooperative mentioned in the case study. [2 marks]

consumer internet searches for sustainable goods increased globally by 71% from 2016 to 2020, and other studies (<https://www.businesswire.com/news/home/20211014005090/en/Recent-Study-Reveals-More-Than-a-Third-of-Global-Consumers-Are-Willing-to-Pay-More-for-Sustainability-as-Demand-Grows-for-Environmentally-Friendly-Alternatives>) show that very large majorities of people are shifting their consumption. Thus, there is both a solid ethics and business case for the for-profit social enterprise model.

There are a number of important challenges facing for-profit social enterprises.

Funding

Like in any business, social entrepreneurs need to find funds to start their work. You will learn more about sources of financing in **Subtopic 3.2**. With social enterprises, investors may need to wait longer to see returns on their investment. Social enterprises often require patient capital, where those providing funding are willing to think more long-term. They may also need to be willing to accept lower returns than might have been typical for a commercial enterprise, as more of the value of the business is distributed to all stakeholders. It is very important that a social enterprise chooses its sources of finance very carefully to ensure that they reflect the purpose and values of the business.



Figure 5. For-profit social enterprises need investors willing to take the long view.

Credit: Rich Vintage, Getty Images

Credibility

Because for-profit social enterprises do not easily fit into traditional models, there may be distrust of the business from a wide range of people. Those connected to the business who are not used to an enterprise making social or environmental purpose part of core operations may wonder why the business is not more focused on profit-making. While those who understand and expect the positive purpose may be suspicious of profit-making, wondering whether the enterprise is engaging in **social washing** or **greenwashing** (marketing social or green credentials but not backed up by actions). In any case, it is important that the for-profit social enterprise is transparent, shows full commitment to its cause and embeds ethical practices into all areas of the business. Adopting legal structures or third-party certifications specific to for-profit social enterprises, as mentioned in the [Section 1.2.2 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/forprofit-commercial-enterprises-id-36840\)](#), can help with credibility.

Measuring impact

Unlike revenue or profits, which can be quantified easily, measuring social or environmental impact is more difficult and may involve qualitative data that is harder to interpret. But gathering data on impact is extremely important for for-profit social

Managing complex supply chains

For businesses that manufacture a physical product, it is important to ensure that all areas of the supply chain are operating in line with the values of the business. As with commercial businesses, for-profit social enterprises may need to outsource or offshore part of their production processes. If a supplier exploits labour resources or damages the environment, this can damage the mission and reputation of the business.

Remaining true to purpose

If a for-profit social enterprise grows its impact, it may be difficult to maintain focus on its purpose. The business may become increasingly complex, with a wider range of stakeholders, including investors, who may have conflicting interests. Changes in external STEEPLE factors ([Section 1.1.6 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834\)\)](#)) may also require the social enterprise to be flexible and open to change. As it responds to those changes, the business must keep its eye on its purpose.

Exam tip

Make sure that you are well aware of the challenges facing social enterprises. Especially for HL students, Paper 3 is focused on social enterprise. It is likely that you will be asked to identify and discuss challenges faced by these organisations, and to provide some recommendations about how to overcome them.

Activity

Learner profile: Thinkers

Approaches to learning: Thinking skills (critical thinking)

From the activity and case study presented earlier in this section, select either:

- N'Go
- the Taitmaitine cooperative

Explain some challenges that might be faced by the business you selected, by applying the list of challenges for for-profit social enterprises above in that context.