

# Investment in Social Enterprises: A German Perspective

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May 30th, 2013

## European Parliament

### SOCIAL INNOVATION - PRIORITY FOR A EUROPEAN AGENDA

### SOCIAL ENTREPRISES AS EU-DRIVING FORCE

This contribution argues along the lines of three main steps:

- **Social enterprises are one important form of social investments in a comprehensive meaning.**
- **Social enterprises in Germany are highly hybrid in their business models and financial sustainability.**
- **The long-term sustainability of German social enterprises is closely connected to the welfare regime and its regulated quasi-markets.**

Investments in social enterprises are one specific form of social investments. This paper uses the term social investments in the comprehensive meaning elaborated and brought forward by the CSI.<sup>1</sup> In very brief terms, social investments are any private resources invested for the public good by voluntary decision. This short definition is further qualified by additional criteria: The investments can be of any different nature (not just financial resources) and include volunteer time, reputation gains, social networks and trust as well as political power resources. They are made to fulfill four different functions in society which are of course separated for analytical purposes but may play a role simultaneously: An economic function of providing products and services contribution to the public good or solving social problems, a social function of building and strengthening social networks, ties and trust relationships, a cultural function of expressing and supporting certain cultural values and norms, and finally a political function of advocacy and participation.

Any such investments need to qualify as of a public benefit nature by passing three levels of legitimacy testing: They need to meet the expectations of the donor/investor as legitimate public benefit contributions, they need to be accepted in this regard by the stakeholders in the field in terms of their actual effects, and they need to be processed or organized in a form which is accepted as legitimate (Civility).

Social enterprises are based on such investments in quite different forms and the systematic framework helps us to better understand their highly hybrid nature. Hybridity refers to the fact that these enterprises are organized using the full range of different resources and reaching beyond the boundaries of standard business models. They may (and according to empirical survey results do) use resources such as philanthropic and volunteer input, political support or public funding (subsidies), social capital to organize structures of co-production and trust relationships to counter market in-transparencies. The sustainability of social enterprises is not just based on a standard business model

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<sup>1</sup> For details see Anheier, Schröder, Then, Hrsg., Soziale Investitionen, Interdisziplinäre Perspektiven, Wiesbaden 2012.

of generating turnover for services and re-investing potential returns into growth and scaling or quality improvement. They work based on hybrid organizational logics and therefore combine characteristics of different sectors.

This implies that social enterprises are highly “political” in nature. Their business approaches frequently originate from the background of a social movement which prepares the ground for their markets in different regards. The social movement first of all paves the way for the normative orientation of the market, but

also for potential policy regulations encouraging such markets, such as in fair trade, organic food or textile production or renewable energy supply. In social services fields welfare policies of different nature have created a welfare system, which in one way or another

– frequently in the form of quasi-markets – regulates the fields and provided for the framework in which

social enterprises can operate. Such quasi-market regulations normally include regulated prices and quality standards or both.

The argument applies in all social services markets such as care for the elderly, care for the disabled, care for challenged youth, but also in more recent field of social enterprise activity such as renewable energy in which guaranteed prices at which suppliers can feed the electricity they produce into the grid. This in turn has led to a boom shift towards wind, biomass and solar electricity production and at the same time to a more democratic production structure (currently 1.3 Mio. producers/owners).

In concluding we can state that social enterprise start-ups are a driver of innovation in social investment markets some of which have a long-standing tradition and organizations serving the field for more than a century. At the same time innovation is driven by intrapreneurship from those existing non-profits such as the welfare associations which play a key role as competitors in the social quasi-markets (like Caritas or Diakonie). The R&D function of new enterprises for the field and society as a whole can most effectively be played if existing large non-profit organizations and well as public policies help to disseminate and scale new solutions using their geographically and socially widespread networks. Examples include the shift to more inclusive structures to support people with disabilities as well as new community and multi-generation developments serving the need for support of both senior citizens and young families or single parents.



*Experts on the panel: Volker Then (CSI), Florian Pomper (Caritas Vienna), Heinz K. Becker (MEP), Bonifacio Garcia Porras and Egbert Holthuis (both European Commission) (f.l.t.r.)*