ME204X Degree Project in Entrepreneurship and Innovation Management, Second Level, 15 ECTS

Sustainability of Social Enterprises:
A Case Study of Sweden

Giorgi Jamburia
Abstract

Social Entrepreneurship is a research field associated with social value creation and inclusive growth. Social ventures primarily have social goals and reinvest their surpluses to support their mission. Sustainability of social enterprises is a debatable topic. Some researchers and practitioners believe in the long-term sustainability of social enterprises while others cast doubt on this opinion. Therefore, it is an interesting research question to study whether social enterprises are sustainable or not. Reputable scientific resources have been analyzed in order to form a conceptual framework. Two kinds of quantitative methods have been used. The first study addresses the relative financial sustainability of social enterprises by researching and comparing their exit and entry rates to the respective figures of commercial ventures. The second study evaluates the impact sustainability by assessing patterns on employment and involvement statistics of work integration social ventures. Both empirical studies are mainly limited to the Swedish market. The results reveal that though newly founded social ventures have better survival rates compared to the commercial businesses social enterprise is a relatively new field characterized by overall higher dynamics of exit and entry. Additionally, social enterprises that have established themselves on the market are more likely to employee and reach more people, although there are a limited number of such ventures and the most successful cohorts seem to be the recent ones.

Keywords: social entrepreneurship, sustainability, work integration social enterprises
Acknowledgements

This degree project has been produced during my scholarship period at KTH Royal Institute of Technology, thanks to a Swedish Institute scholarship.

First and foremost, I want to thank my supervisor, Kristina Nyström for her useful recommendations and guidance. I also want to express my gratitude towards the program director, Mr. Terrence Brown. Finally, I want to thank all the professors and visiting lecturers who gave us great insights in the fields of entrepreneurship and innovation.

Stockholm, May 2013
Giorgi Jamburia
# Table of Contents

Abstract ........................................................................................................................................ iii
Acknowledgements .................................................................................................................... iv
Table of Contents ...................................................................................................................... v
Table of Figures, Tables and Acronyms ..................................................................................... vi

1. Introduction ................................................................................................................................ 1

2. Literature Review ....................................................................................................................... 2
   3.1 Definition of Entrepreneurship ............................................................................................. 2
   3.2 Definition of Social Entrepreneurship .................................................................................. 3
   3.3 Sustainability of Social Enterprises ...................................................................................... 7
   3.4 Social Enterprises in Sweden ............................................................................................... 13

3. Research Methodology ............................................................................................................. 15

4. Research Findings ..................................................................................................................... 16
   4.1 Social Enterprise Entry and Exit Rates ............................................................................... 16
   4.2 Start-up Exit and Entry Rates, Survival and Comparison ..................................................... 18
   4.3 Impact Sustainability – Job Creation .................................................................................... 21

5. Conclusions ................................................................................................................................ 27

References ..................................................................................................................................... 29

Appendix ....................................................................................................................................... 32
List of Figures

Figure 1. Pure forms of Social engagement ................................................................. 5
Figure 2. The spectrum illustrating the boundaries of social entrepreneurship .......... 6
Figure 3. Continuum table of viability and sustainability ............................................. 7
Figure 4. Impact vs. Production and Operating costs .................................................. 9
Figure 5. The relationship between demonstrable performance and funding growth ... 11
Figure 6. Regional representation of Swedish social enterprises as of April 2012 .......... 13
Figure 7. Organizational form of social enterprises in Sweden .................................. 14
Figure 8. Enterprise birth and death rates, Business Economy, 2005 and 2006 (%) ...... 18
Figure 9. Social enterprise survival rates in Spain ...................................................... 20
Figure 10. Swedish work-integrating social enterprises by years of foundation .......... 21
Figure 11. Current employment figures of several cohorts by 2012 ............................. 23
Figure 12. Average job creation of several cohorts by 2012 ........................................ 23
Figure 13. Medians of job creation of several cohorts by 2012 ................................. 24
Figure 14. Size/Reach of Swedish Social Enterprises as of 2012 .............................. 24
Figure 15. Size of Swedish Social Enterprises as of 2012 .......................................... 25
Figure 16. Employment figures of Swedish Social Enterprises as of 2012............... 25

List of Tables

Table 1. Cumulative failure rates by years ................................................................. 19
Table 2. Statistics on job creation by Swedish social enterprises ............................... 22
Table 3. Explanations of Table 2 Abbreviations ....................................................... 32
Table 4. Explanations of Figure 8 Abbreviations ..................................................... 32

List of Acronyms

SE – Social Entrepreneurship / Social Enterprise
SROI – Social return on investment
WISE – Work Integration Social Enterprise
1. Introduction

Social entrepreneurship (SE) has become one of the most outstanding social trends in recent years. The 2006 Nobel Peace Prize Award to Grameen Bank and its founder Muhammad Yunus “for their efforts to create economic and social development from below” rewarded the significant contribution of the social venture to peacebuilding and progress around the world (nobelprize.org). It is no surprise that inequality can be a reason for tensions and instability. That is why inclusive growth benefits to peace. Several researchers and practitioners note that social entrepreneurship has a particularly outstanding role when governments, philanthropic organizations and large corporations fail to address some of the most important social issues (Dees, 2011; Hartigan, 2004; Seelosa and Mairb, 2005). Education, healthcare, nutrition, housing, accessibility of water and sanitation, environmental issues, human rights – this is an incomplete list of problems that social entrepreneurs face and intend to solve (Dees, 2001; Dees 2011; Girija, 2008; Seelosa and Mairb, 2005).

Sustainability of social enterprises is an area that has not been adequately studied on a scientific level. Therefore, more research has to be conducted to reveal one more piece of the social entrepreneurship “puzzle”.

The research question of this degree project can be formulated in the following way: Are social enterprises sustainable?

The research question will address both financial and impact aspects of sustainability. It is important to know whether social entrepreneurship is a fad that will ebb away sooner or later or it is a more long-lasting “phenomena”. Additionally, we have to research if social ventures are able to self-support at some point without the further assistance from governments and several other grant donating organizations. The research will shed light on existing challenges that may hinder the progress of social entrepreneurship as a separate and credible field.

The research methodology in this paper consists of the literature review and two kinds of quantitative studies. First empirical research approach assesses exit and entry rates of social enterprises in Sweden. These figures are contrasted to the statistics of commercial ventures. Additionally, as job creation is a central mission of work-integrating social enterprises (WISE), employment figures and patterns are also researched.
2. Literature Review

2.1 Definition of Entrepreneurship

Until we start exploration of the literature that deals with the research question we have to define these key terms to have a clear and concise idea what the discussion is going about. No or unclear definition may lead to ambiguity and misinterpretation of research findings.

Before we discuss social entrepreneurship we have to define entrepreneurship itself. For that purpose we have to refer back to the researchers who coined the term. One of the first definitions is tracked back to 19th century French researcher Jean Baptiste Say. According to him, the entrepreneur is an actor that shifts economic resources from the areas of lower productivity to the higher ones (Say, 1816).

Another and supposedly one of the most influential economists, Joseph Schumpeter talks about the creative destruction process that is initiated by entrepreneurs. As he put it, this process is facilitated “by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on” (Schumpeter, 1943, p.132).

Additionally, Peter Drucker describes entrepreneurs as change seekers and opportunity exploiters (Drucker, 1985).

The spectrum of SE boundaries sketched by Abu-Saifan (2012) will also be reviewed in the context of social entrepreneurship definition. After that we will explore sustainability issue of social ventures. There are different views on this topic. Some believe that financial sustainability cannot be assessed without the consideration of impact sustainability and propose a continuum table of viability and sustainability (Burkett, 2010). Studies about future of social enterprise (Rangan, Leonard and McDonald, 2008), cases for definition (Marting and Osberg, 2007), algorithm view of SE (Trexller 2008), integrated approach (Alter and Dawans, 2006) among several other relevant publications will be explored and analyzed.
2.2 Definition of Social Entrepreneurship

There is a great debate around the definition of social entrepreneurship. As some researchers note, the only consensus is that everyone agrees that there is no universally acceptable description of SE. We have to understand above-mentioned key characteristics of entrepreneur that will help us better define social entrepreneurship.

Most researchers agree on two major characteristics of social entrepreneurship: social enterprises have a central social mission and they re-invest profits to support those special goals.

Translation of social opportunities into an enterprise concept is a part of the social entrepreneurial process (Kuratko, 2009). However, for this type of entrepreneurs social objectives come first and commercial skills are utilized later to achieve those aims (Burns 2011).

Famous researcher on SE, Brooks (2008) lists those activities that predominantly characterize social entrepreneurs:

- Adoption of a mission to create and sustain social value
- Recognition and relentless pursuit of opportunities for social value
- Engagement in continuous innovation and learning
- Action beyond the limited resources at hand
- Heightened sense of accountability

Bill Drayton, one of the gurus of social enterprise movement and the founder of Ashoka, made a very well descriptive comment about his field: “social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry” (ashoka.org). This transformative capability of socially-minded entrepreneurs is a very important characteristic to consider. One of the best practice examples is above-mentioned Muhammad Yunus and his Grameen Bank with microcredit schemes. Today, microfinance is connected with the welfare of 100 million families in the world (Dees, 2011).

All in all, social entrepreneurs are described as change agents who have pattern-breaking ideas and address root causes of the problems (Kuratko, 2009).

Sethi (1979) makes a distinction between three different levels of corporate intensity about social issues: social obligation, social responsibility and social responsiveness. Based on their approach to existing pressures, social entrepreneurs mostly feel comfortable while being responsive and proactive to solving problems.
Some authors divide SE in two parts: integrated and complementary social entrepreneurship. Integrated SE is the case when profit-generating activities simultaneously create the social value. On the other hand, complementary SE focuses mostly on cross-subsidization for social goals. In this case, surpluses from commercial activities work as subsidies for social objectives (Burns, 2011).

There are differences between definitions of supposedly two most successful countries in social entrepreneurship. The US definition stresses on the ability to earn revenues to reinvest them for social value creation. However, in the UK definition emphasis is on community involvement (Burns, 2011).

According to Hartigan (2004), establishment of social entrepreneurship as a separate area is connected to Bill Drayton and his Ashoka founded in 1980. Drayton’s initiatives increased number of SE fellows around the world and made the field legitimate. During 80s social entrepreneurs were shaping their approach to the surrounding challenges. They were not satisfied with providing simple and one time solutions to existing problems. On the contrary, social entrepreneurs believed that they had to be initiators of practical and transformative answers to the problems. In 90s emergence of corporate social responsibility concept was also related to the evolution of social entrepreneurship. While CSR was seeking for the profit first and then thinking about the ways to be socially responsible, SE has changed the order of missions. They considered social and environmental transformation the bottom line and tried to build profit-generating activities based on that. During the same period several foundations started to employee some of the commercial initiatives simultaneously using measurable goals and benchmarks. Later, social entrepreneurship courses appeared on the curricula of some of the well-known universities that further increased the interest towards the field (Hartigan, 2004).

Growth is an important factor. Nevertheless, it is crucial to consider the equality side of growth around the world. For instance, as statistics show GDP of 41 poorest countries where more than 567 million people live is less than the combined fortune of the world’s seven richest people (globalissues.org). Founder of Grameen, Muhammad Yunus, notes that he was shocked when he encountered the people whose income constituted of several cents while in contrast, Yunus dealt with millions or billions of dollars in his university courses (Yunus, 2001). Global priorities of spending in developed and developing countries are different. Funds allotted for basic education, water systems, health care in developing countries are far from being optimal or enough in any respects (Girija, 2008).
Charity, social services and philanthropy have been some of the most common instruments to tackle these kinds of crucial problems. Sustainable development and Corporate Social Responsibility have addressed more of root causes of these problems. Later social entrepreneurs who are on the self-actualization phase started to assist people who are on lower levels of Maslow’s hierarchy of needs (Girija, 2008).

Dees and Anderson (2003) distinguish three forms of social enterprises: for-profit social ventures, non-profit business ventures and socially responsible businesses. For-profit social ventures are legally formed as for-profit bodies. Although such ventures are primarily designed to serve social purpose, they have a right to make profit. Non-profit business ventures have legal restrictions when it comes to distribution of profits. However, they have an opportunity to use philanthropic sources to cover costs. In contrast to for-profit enterprises non-profit ventures do not experience ‘capital market and profit pressures’. On the other hand, socially responsible businesses try to be commercially successful while following some of the ethical and responsible practices. Although it should be noted that economic value creation is a predominant purpose for such businesses.

![PURE FORMS OF SOCIAL ENGAGEMENT](image)

**Figure 1.** Pure forms of Social engagement (Source: Marting and Osberg, 2007)

Martin and Osberg (2007) distinguish social entrepreneurship from social service providers and social activists (Figure 1). According to them, social entrepreneurs’ nature of action is direct that aims to form and maintain a new equilibrium.
However, there is a tendency of boundary blurring among the sectors. Non-profits seek for commercial strategies and for-profit companies get involved in social value creation. Meanwhile, public sector tries to form partnerships with both to increase benefits to the society (Rangan et al., 2008)

In contrast, Abu-Saifan (2012) proposes still another view on boundaries of social entrepreneurship (Figure 2). He thinks that only for-profits with mission driven strategies and non-profits with earned income strategies can be considered social enterprises.

![Figure 2. The entrepreneurship spectrum illustrating the boundaries of social entrepreneurship (Source: Abu-Saifan, 2012)](image)

Jeff Skoll, former CEO of eBay and founder of Skoll Foundation, characterizes approach of social entrepreneurs both as revolutionary and evolutionary as social ventures operate on self-sustainable models and besides financial return success is measured in the level of social benefit that social venture provides for its target groups (skollfoundation.org).
### 2.3 Sustainability of Social Enterprises

Several practitioners believe that sustainability of social enterprises must also include the impact side. Burkett (2010) proposes continuum table of viability and sustainability (Figure 3). According to her, social enterprises have to start with ensuring best fit for impact and viable business. Only after that companies will deal with break-even, profit generation, equity building and enduring impact.

<table>
<thead>
<tr>
<th>Impact Viability</th>
<th>Operational Viability</th>
<th>Operational Sustainability</th>
<th>Financial Sustainability</th>
<th>Balance Sheet Sustainability</th>
<th>Impact Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring best fit for impact</td>
<td>Ensuring a viable business</td>
<td>Covering Costs/ Breaking Even</td>
<td>Generating a surplus</td>
<td>Building equity</td>
<td>Maximising enduring impact</td>
</tr>
<tr>
<td>- Is a social enterprise the best way to achieve maximum impact in relation to our social purpose?</td>
<td>- Is the business of the enterprise viable?</td>
<td>- Can we consistently cover the costs of our operations and all associated overheads and on-costs?</td>
<td>- Are we generating a profit or surplus?</td>
<td>- Are we building equity and savings over time?</td>
<td>- Are we delivering the sort of social impact that we envisaged we would?</td>
</tr>
<tr>
<td>- Can we demonstrate the viability of this social enterprise in achieving the intended impact either qualitatively or quantitatively?</td>
<td>- Are we able to meet our operating costs?</td>
<td>- Is our cash flow adequate, do we have adequate liquid funds?</td>
<td>- Is our surplus adequate to meet our ongoing growth and development needs?</td>
<td>- Could we weather a financial storm or change in our circumstances?</td>
<td>- Are we able to sustain and depend this impact over time?</td>
</tr>
<tr>
<td></td>
<td>- Are we costing our goods and services appropriately to cover all our expenses?</td>
<td>- Have we been able to project and plan for our operational costs into the future and meet our financial obligations over time?</td>
<td>- Do we have adequate plans and projections in place that will help us to shape our financial future?</td>
<td>- Have we built up our asset base over time?</td>
<td>- Are we finding ways to 'measure' and 'report' on our social impact?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Are we confident that we are making use of our current resources most effectively and efficiently?</td>
<td>- How long would our savings allow us to continue operating if we lost a major source of income?</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 3.** Continuum table of viability and sustainability (Source: Burkett, 2010, p.1)

Burns (2011) thinks that there will always be a gap in the market as public agencies would never be able to fulfill whole society’s needs in different social aspects such as education, healthcare, social security, etc. Consequently, there can always be a space for social entrepreneurs.

Other authors, such as Trexler (2008) are skeptical about the long-term sustainability of social enterprises. They draw parallels with the Dot.com bubble and predict the similar future for this new trend. Additionally, Trexler tends to think that commercial and social goals are frequently incompatible.

Dees (2011) believes that nowadays existence of non-destructive entrepreneurship is especially important. This view is contrasted to Schumpeter’s famous concept of creative destruction. In Dees’ opinion, creation of long-term value should be based on combination of fewer resources and far less disruptive actions. Such kind of innovation is highly relevant to social and environmental problems. And there is the space for social entrepreneurs. To Dees, social entrepreneurship is a crucial instrument on the way to the era of inclusive prosperity.
Dees (2011) views social ventures as learning laboratories where innovative solutions to social problems are generated. However, a number of experiments have to be conducted to come up with viable and scalable solutions. And it is noteworthy that social entrepreneurs have that kind of flexibility to experiment as they mostly run small and low-cost ventures.

Resourcefulness is another concept that is directly related to social entrepreneurship. Identification and right combination of under-utilized resources is one of the challenges for social entrepreneurs (Leadbeater, 2007). Dees agrees to this opinion as social entrepreneurs create pragmatic and resourceful business models that become a platform for more scalable and sustainable solutions.

Dees thinks that commercial strategies may not be appropriate for all social ventures. The reason is that social enterprise business models range from philanthropy and government subsidized ventures to more commercial ones. However, Seelos and Mair (2005) believe that by using corporate types of capital instead of philanthropic funds gives social entrepreneurs access to additional corporate knowledge and skills. Similar idea was expressed by Karolina Lisslö and Josefina Oddsberg, founders of Bee Urban - Swedish social venture. Choice of the right legal structure and commercial strategies helped them attract far more partners than it would be possible if they had an NGO status (startupday.se, 2013).

In his earlier paper Dees (2001) writes that it is harder to find out if a social entrepreneur is creating enough social value. According to him, survival and growth of social venture does not show its effectiveness. Though, it could be considered a weak indicator.

Performance metrics is regarded as one of the main challenges that surround the topic of measurement of social enterprise success and sustainability. Social enterprises attempt to measure Social return on investment (SROI). It is quite hard to properly evaluate the social impact generated by the enterprise. It cannot be easily converted into economic terms. Additionally, it is complicated to compare different types of social value created by social ventures. Issues such as intangibility, direct causality and ignorance of long-term effects make it even more difficult to make right decisions about investments, allocation of available resources, etc. Furthermore, another challenge is that employees of social ventures have to be competent in both commercial and social sectors. Last but not least, pressures from different stakeholders may lead organizations to compromise on either social or commercial aims (Girija, 2008).
Burkett (2010) thinks that social enterprises have two sides of sustainability. First aspect is a financial sustainability that shows endurance over time. Second side is related to the impact social enterprise generates with regards to its social mission. Maintenance and deepening of social enterprise’s impact is an important factor to be considered.

![Image](image.png)

**Figure 4.** Impact vs. Production and Operating costs (Source: Burkett, 2010)

Burkett advocates for separation of production and operational costs from the impact ones (Figure 4). The former are associated with the operations performed to properly conduct business. On the other hand, impact costs cover those expenditures that are undertaken to support central social missions of ventures. This may include support and participation costs for long-time unemployed people among others.

According to Burkett, social ventures have to cover production and operating cost via commercial methods for self-support. However, grants and subsidies may be used to offset impact costs. Since most social enterprises operate at a low-scale with limited resources they will hardly be able to achieve all kinds of sustainability without grant donations. Although, as she once again notes these funds should not be used for covering operating costs. Such separation will make it realistic to create more sustainable social enterprises. Finally, Burkett warns that we should not be expecting of social enterprises to become sustainable in short periods of time.

Alter and Dawans (2006) believe that sustainability of social enterprises requires existence of such factors as ‘organizational and leadership capacity, business-oriented culture and financial viability.’ Therefore, they advocate for the integrated approach for achieving a sustained social value. Integration, according to them, should happen at the level of culture, operations and finance. That will allow organizations to reach proper scale and impact.
There is much diversity in the field of social entrepreneurship in terms of schools of thought – leadership, funding and program approaches are identified. Leadership approach advocates for individuals’ professional development. However, since individuals cannot be replicated some of the successful initiatives may not be repeated elsewhere. Funding approach supports employment of commercial activities for diversification of financial resources. But financial outcome is not always satisfactory – mission dissonance and serious tax issues are cited as major problems. Finally, in case of program approach business activities and social mission are compatible with each other. However, it is criticized because of lacking business potential (Alter and Dawans, 2006).

Balancing of social and business objectives is another issue that creates much controversy. There is no ready recipe where the balance between the two must lie. It is worth to note that many social enterprises have focused too much on business function compared to the social one while little have been done to integrate both parts. Unlike the profit-maximizing ventures complex nature of social mission makes it even harder for social enterprises to strive to be a goal-oriented enterprise (Alter and Dawans, 2006).

There are several versions explaining why social ventures fail, though much research has not been done about it practice reveals that cultural problems and low capacity are some of the main reasons. Nevertheless, Alter and Dawans think that social enterprises should not be restricted only to earned income and profit because one always has to assess the ‘impact side of the equation’. Effective resource management is crucial for social entrepreneurs. They have to reach out valuable resources beyond the financial ones (Alter and Dawans, 2006).

On the way to sustainability social enterprises have to deal with some of the serious challenges. As Hartigan (2004) finds out the main obstacle is related to governments as they still have to recognize legitimacy of social ventures and create supportive regulative environment for such companies. Second, businesses have to realize the importance of partnerships with social entrepreneurs. It is also worth to note that an increasing number of graduates look for something more impressive and valuable than just decent/high salaries. Third challenge is about relations with foundations and philanthropists. Social ventures have to be positioned in a proper way to get support from such institutions. Social entrepreneurship should also be in touch with bilateral and multilateral organizations. Finally, academic sector may play much more important role in development of entrepreneurial thinking considering social and environmental perspectives.
Rangan et al. (2008) propose three different scenarios on the future of social entrepreneurship (Figure 5). First scenario predicts consolidation of the sector. If many social enterprises fail, funding will be concentrated on small number but larger organizations. Thus it is believed that funding will increase in a gradual fashion, efficient enterprises will merge, grow and gain scale.

Second entrepreneurial scenario suggests that companies will employee more entrepreneurial strategies. Companies will be more competent in finding more innovative funding solutions and they will pay more attention to achieving effectiveness and efficiency. This will give a rise to more reformed version of social sector. Under this specific scenario market leaders may not only be larger organizations as smaller and medium ones will find ways to coexist with bigger ones (Rangan et al., 2008).

Final expressive scenario builds on the prediction that instead of stressing on performance metrics enterprises and providers of funding will see their investments as civic activity. Individual priorities and simple participation in a social cause will be much more rewarded activities (Rangan et al., 2008).

![Figure 5. The relationship between demonstrable performance and funding growth](Source: Rangan et al. 2008)
Rangan et al. (2008) think that it is more of an imagination deficit than a problem of funding or a lack of talent. Therefore, they believe that social entrepreneurs have to be more visionary to achieve more success. Also the researchers of Harvard Business School do not think that social entrepreneurship is forming into somewhat of a 'silver bullet' as social enterprise literature claims. More of a steady though not noteworthy growth is monitored through a data analysis. Several new models exist but they are still in the infancy stage and their potential is not yet fully unleashed.
2.4 Social Enterprises in Sweden

The Social Enterprise industry is quite well developed in the Swedish and Nordic region. According to Hodgetts and Kuratko (1991) sub-categorization, companies analyzed and listed by NUTEK and Tillväxtverket can be described as enterprises that follow fair business practices. This mainly includes employment and advancement of disadvantaged employees (disabled, veterans, ex-offenders, former drug addicts, mentally retarded, long-time unemployed). According to Chell et al. (2010), Swedish representatives of this field are especially active in employment services.

Magazines sold by homeless are noteworthy examples of Swedish social enterprises. For instance, 1995 founded Situation STHLM is such kind of journal that employees 500 people. Faktum and Aluma are more recent homeless-sold magazines.

Several more companies also employee people who are disadvantaged in one or more respects. Therefore, work integration social enterprises are well represented in Sweden.

Figure 6. Regional representation of Swedish social enterprises as of April 2012 (Tillväxtverket, 2012)
Västra Götaland is the most active municipality with 57 work integration social enterprises, followed by Stockholm and Skåne, with 50 and 25 social ventures respectively (Figure 6).

**Organizational Form of SEs in Sweden**

![Organizational Form of SEs in Sweden](image)

**Figure 7.** Organizational form of social enterprises in Sweden (based on the data of sofisam.se)

According to the data on organizational form of social enterprises in Sweden (Figure 7), economic association is the most widespread one (172 enterprises). That is followed by non-profit form of organization (81 enterprises) and limited companies (22 enterprises).

In the foreword of 2008 NUTEK report, authors point out that in today's dynamic business world not all people get equal access to jobs. Different types of social enterprises create economically, socially and environmentally sustainable solutions to the pressing unemployment problems. As noted, these companies not only create growth but they free up resources of welfare services that could be used for other purposes. Smallest companies employ few people and may have a turnover of 30 to 40 thousand SEK per year. However, there are several ventures with workforce of around 100 people and annual turnover reaching 30 million SEK. The business activities of these social ventures are diverse and include transportation, gardening, education, crafts, forestry, agriculture, newspaper sales, cafes, hotels and so on (NUTEK, 2008).
3. Research Methodology

In order to get as complete picture as possible different types of research methods were used. Literature review and two kinds of quantitative research studies were conducted to properly study the question of interest.

Literature review was used as an initial method of research. Most relevant, up-to-date and reputable scientific resources were analyzed, compared and contrasted. That helped explore existing knowledge base regarding the research topic, get in deep in the current situation and understand existing challenges related to the sustainability issue of social ventures.

Study of exit and entry rates of social enterprises was conducted and comparison was made with their commercial counterparts. The study is mainly limited to the Swedish market. Through this research we can partially assess relative financial sustainability of social enterprises.

In order to evaluate impact sustainability we had to study the employment and involvement figures of Swedish social ventures. As job creation is the central mission of work-integrating social enterprises the study revealed some of the patterns related to this important aspect of sustainability.

Secondary data was also analyzed to complement the empirical quantitative research. Data from such sources as Eurostat (2009), European Commission (2012), University of Tennessee (statisticbrain.com) and Spanish Enterprise agencies (Ministry of Labour and Social Affairs, Spain, 1994-2005) were used. Eurostat and EC reports were used to obtain data on Swedish enterprise exit and entry rates, employment patterns, etc. Other secondary sources add international perspective to the discussion of research findings by introducing figures of the US commercial enterprise and Spanish social business survival rates.
4. Research Findings

4.1 Social Enterprise Entry and Exit Rates

In order to observe exit and entry rates of social enterprises corresponding lists were analyzed. Tillväxtverket, the Swedish Agency for Economic and Regional Growth issues lists of social ventures operating in Sweden. Such reports were formed in 2007, 2008, 2010 and 2012. Because of the expensive nature of data gathering research on social enterprises was not conducted in 2009 and 2011. Correspondingly, for the purpose of research accuracy reports of only 2008, 2010 and 2012 were studied in depth (NUTEK, 2007; NUTEK, 2008; Tillväxtverket, 2010; Tillväxtverket, 2012).

Before presenting findings it is advisable to distinguish different levels of failure. According to HBS professor Ghosh, first type of failure is associated with the liquidation of assets. Second kind of failure is when projected return of investment is not achieved. Another definition refers to not fully realizing initially set goals. Failure rates vary from 30-40%, 70-80% and 90-95% respectively for the above-mentioned levels (Nobel, 2011). This and following sections will mostly discuss the first type of failure.

The lists formed by NUTEK and Tillväxtverket predominantly include those social enterprises that create job opportunities for the disadvantaged citizens. These ventures share the following characteristics:

- They aim to integrate people who have difficulties in obtaining jobs
- They empower employees
- They reinvest profits to support their social mission
- They are organizationally independent from the public sector

As 2008, 2010 and 2012 reports use different styles of listing, the latest issue was taken as a point of reference. Therefore, 2008 and 2010 reports were readjusted to make the lists comparable. For instance, parent and daughter companies were counted as one or separate entities in different reports. Also new lists featured some companies that existed by the time when previous study was conducted. Consequently, company listing webpages such as sofisam.se, allabolaget.se, 121.nu and ratsis.se were used to specify foundation or liquidation years of certain enterprises.

After making above-mentioned corrections lists of 2008, 2010 and 2012 were compared to assess exit and entry rates of Swedish work-integrating social ventures (in a 2-year period).
In 2008 a total of 205 social enterprises operated in Sweden. Until 2010 30 companies left the market that represents 15% exit rate during 2008-2010 periods.

However, 53 start-ups were opened by 2010 that is equivalent to 26% entry rate in two years. That increased the total number of social ventures to 228 that is the resulting 11% increase for 2010.

From 2010 to 2012 39 social enterprises exited the market that is 17% failure rate.

On the other hand, 80 new social ventures were founded in the same period thus increasing the total number of SEs up to 272. The entry rate of this period is 35%. Resulting growth in 2010-2012 periods is 19%.

To sum up, 69 companies left the market from 2008 to 2012 and 133 social enterprises were started up in the same period.
4.2 Start-up Exit and Entry rates, Survival and Comparison

To analyze the dynamics and relative sustainability of social enterprises we have to make a comparison with the statistics of regular commercial ventures.

Figure 8 shows the birth and death rates of European start-ups. Abbreviation of Sweden is SE (See Appendix for other abbreviations). According to this graph, Sweden has one of the lowest levels of entry rates among 21 European countries covered in the Eurostat 2009 research. Entry rate was about 7% and exit rate was around 6% for Swedish businesses by 2005-2006.

![Figure 8. Enterprise birth and death rates, Business Economy, 2005 and 2006 (%) (Source: Eurostat, 2009)](image)

If entry and exit rates remain to be 7% and 6% respectively, these figures in two years period will reach 14.5% and 12.4%. However, these percentages are less than 26% entry and 15% exit rates for social ventures of 2008-10 periods. It is especially true for subsequent 2010-12 period for SEs characterized by 17% death and 35% birth rates. Therefore, after adjustment to 2-year entry and exit rates, we can see that there is a higher dynamics of entry and exit among social ventures. One the one hand, it is not that surprising since social entrepreneurship is a new field and there is much movement. However, after achieving maturity social ventures may have lower exit rates.

Additionally, we can also monitor the resulting growth figures of social enterprises. As mentioned above, the subsequent growth reached 11% in 2008-2010 period and 19% from 2010 to 2012 for the selected sample of work-integrating social ventures. It reflects the steady growth of the Swedish social enterprise sector.

According to Lisbon 2005 strategy, sustainable growth can be achieved if the following conditions hold true: birth rates are higher than death rates; increasing initial employment trend and better survival figures should be tracked among start-ups (Eurostat, 2009).
Survival rate is also an important indicator for sustainability assessment. However, for commercial enterprises survival in the first 5 years may not improve the chances of reaching subsequent year (Eurostat, 2009).

If we track 2009 cohort of work-integrating social enterprises, we will see that only 2 out of 25 companies left the market in a 3 year period (92% survival). Even more, none of 18 enterprises entering the market in 2008 exited.

In contrast, we can provide the figures of Swedish business survival rates. “The number of companies still operating of the 57,000 start-ups in 2008 was just over 39,000. The proportion of surviving companies, or the survival rate, was 68 per cent. This was the same as in the follow-up survey of companies set up in 2005” (Tillvaxtanlys, 2013). Although, our sample is somewhat small, by comparing it to the statistics of commercial ventures, we can imply that SEs (especially work-integrating ones) have higher survival rates at least in early years.

For further clarity and more international perspective we can introduce the US and Spanish statistics of survival rates. According to Statistic Brain Global data based on University of Tennessee Research (2012), US companies have the following failure rates (Table 1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Failed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>25 %</td>
</tr>
<tr>
<td>Year 2</td>
<td>36 %</td>
</tr>
<tr>
<td>Year 3</td>
<td>44 %</td>
</tr>
<tr>
<td>Year 4</td>
<td>50 %</td>
</tr>
<tr>
<td>Year 5</td>
<td>55 %</td>
</tr>
<tr>
<td>Year 6</td>
<td>60 %</td>
</tr>
<tr>
<td>Year 7</td>
<td>63 %</td>
</tr>
<tr>
<td>Year 8</td>
<td>66 %</td>
</tr>
<tr>
<td>Year 9</td>
<td>69 %</td>
</tr>
<tr>
<td>Year 10</td>
<td>71 %</td>
</tr>
</tbody>
</table>

Table 1. Cumulative failure rates by years (University of Tennessee Research 2012, http://www.statisticbrain.com/startup-failure-by-industry)

In addition, Ministry of Labor and Social Affairs of Spain provides the statistics on survival rates of Spanish social enterprises (Figure 9). By general comparison, we can say that Spanish social enterprises have better survival rates, especially in the first 5 years. After that failure rates become more or less similar.
Figure 9. Social enterprise survival rates in Spain (Ministry of Labour and Social Affairs. Directorate-General of Social Economy. 1994-2005)
4.3 Impact Sustainability

When we discuss the job creation that is one of the central missions of work integrating social enterprises, we have to mention the statistics regarding this topic. Davidsson and Delmar (1998) observed Swedish statistics and found that “only 1.7 percent of the ten year job growth of surviving firms in Sweden was generated by firms two years old and younger in the observation year. By contrast, 74.5 percent of the job growth was generated by companies ten or more years old”. Therefore, based on this fact, we may argue that the real impact side sustainability of the above-mentioned social ventures should be discussed after about 10 years of their operation. However, intermediate levels of impact can be also researched in the medium-term.

As we see from the Figure 10, companies that were founded in 2010 and 2011 are quite well-represented by 2012. According to GEM (Global Entrepreneurship Monitor) 2006 Report, ‘baby social ventures’ are the enterprises that have operated for less than 3.5 years. So there is a large share of such baby ventures on the social enterprise market.

It is worth to note that employment statistics below will include both people employed and involved in the social enterprise as total reach is an important indicator to assess impact sustainability. The involved citizens may continue working at the ‘trainer’ company or move somewhere else.

Figure 10. Swedish work-integrating social enterprises by years of foundation (based on the data of sofisam.se)
72 enterprises (27%) out of 268 companies that have 10+ years of history generate 45% of total current jobs (Table 2). That figure shows that companies that have endured over 10 years show certain level of impact sustainability as well as proper size and scale. Also we can suggest that recent start-ups are not that successful in job creation as already established companies.
We can also monitor the clear trend in 2008-2011 in overall yearly job creation - 945, 737, 647, and 450 (Figure 9). There is a similar pattern of 2008-2011 in average job creation - 50, 34, 16 and 10. It can be suggested that recently social enterprises gain size through the years.

Another important statistics that we can derive from the data analysis is the following – currently social enterprises founded in 2000-2005 have clearly higher medians (35, 25, 20, 20, 22, and 22.5) of job creation than the ones started up in 2006-2011. As median shows the mid-point of employment it serves as a better indicator than a simple average. We can suggest that companies having more than 5 years of operating history reach better figures (Figure 11).
Some kind of increasing trend was monitored for the medians of job creation - in 2006-2009 - 10, 13, 14, and 16.

However, as many more social enterprises are started up every year, most successful job cohorts appear to be the most recent ones. Out of 7 most successful job generating cohorts 4 are 2008-2011 ones - 2nd, 3rd, 4th and 7th places (3 in top 4). It shows that although according to median figures older companies have bigger size the number of such companies is quite limited.

On the contrary, there are a high number of recently founded companies though they do not create that many jobs. 47% (125 out of 268) of companies are founded in last 4 years while only 32% of jobs is generated by the companies founded in this period (2008-2011).
Figure 14 shows the size distribution of Swedish social enterprises. We see that the absolute majority of companies have less than 100 employees.

![Size of Swedish Social Enterprises](image)

**Figure 15.** Size of Swedish Social Enterprises as of 2012 (based on the employment figures available at sofisam.se)

Figure 15 shows that most Swedish work-integrating social enterprises remain to be pretty small. 73% of SEs employee up to 10 people therefore these companies can be described as micro-enterprises without considering a turnover, according to the EU definition of Small and Medium sized enterprises (ec.europa.eu). 23% of the social ventures (11 to 50 employees) can be categorized as small enterprises. Additionally, 4% of the sample belongs to the medium sized ones (up to 250 employees).

![Employment by Size of SE](image)

**Figure 16.** Employment figures of Swedish Micro, Small and Medium size Social Enterprises as of 2012 (based on the data of sofisam.se)

As usual, a significant number of micro social enterprises (73%) generate only 29% of jobs (only employed people). 23% small size social ventures employee 46% of the WISE workforce. Finally, medium size SEs (4%) provides jobs for 25% of SE employees.
However, the above-given figures do not represent the employment patterns of all Swedish SMEs. According to the European Commission 2012 Enterprise report on Sweden, 93.4% of the companies are micro-enterprises in Sweden, 5.5% of the ventures belong to small-sized ones, 0.9% of companies have medium size and only 0.2% is large. Nevertheless, micro-enterprises create 25.2% of the jobs, while small, medium and large enterprises employee 21.3, 17.8 and 35.7% of total workforce respectively.

It is noteworthy that Sweden is the country that has one of the highest proportions of initial employment within enterprises that have endured through five years (Eurostat, 2009).
5. Conclusion

5.1 Discussion

Sustainability of social enterprises, as found out from the literature review and empirical studies, is a complex issue. Opinions on this topic range from the sincere believers in sustainability of social entrepreneurship to radical skeptics. Therefore, it is quite difficult to draw some conclusions without considering that the field is relatively new and much more time is needed to assess long-term success rates of social ventures.

The future of social enterprise is still unclear. Different future scenarios have been considered including consolidation, entrepreneurial and expressive ones. However, it is unclear which of these predictions will be most close to reality after several years.

Reputable practitioners advocate for considering both financial and impact sustainability. Meanwhile, they support separation of operational costs from the impact ones. If companies want to become sustainable they have to cover production costs via commercial sources while grants and donations can be used to offset impact costs, the expenditures that are related to achieving the major social mission.

Breaking patterns and creating new equilibrium should be the motto for social entrepreneurs. Additionally, they have to be skilled at matching scarce and limited resources.

Difficulty to balance social and commercial goals is one of the problems that dangers sustainability of social ventures. Furthermore, professional metrics cannot measure social benefit accurately. Some more researchers think that even survival and growth of social ventures do not prove their effectiveness.

However, many more believe in the future of social entrepreneurship but they ask for more creative and pattern-breaking ideas.

From the empirical studies we saw that social enterprises who have established themselves for several years tend to employee more people. However, almost half of the currently operating social ventures have been formed in the last 4 years. Most of the ventures have a workforce of less than 100 people.

Entry rates are steadily increasing for the last years. Comparison of exit and entry rates of social and commercial ventures showed that there is a higher dynamics in the social sector though this could be regarded to the newness of the field.
Empirical study and secondary sources on survival rates revealed that social ventures have a better statistics than commercial ones. Newer cohorts (2008, 2009) seem to be especially ‘sustainable’ in this respect.

Employment and involvement study showed some interesting patterns. First of all, companies that have endured for more than 10 years show certain features of sustainability by employing and supporting more citizens. Additionally, companies that have operated for 5-10 years have clearly higher medians of job creation/reach than the newer ventures. Also in the last four years companies seem to gradually gain size.

To finally answer the research question posed in the beginning of the thesis asking whether social enterprises are sustainable or not a more complex answer can be formulated. Social ventures reveal some of the patterns of sustainability. Survival rates show that recent cohorts are quite successful in this regards. Death rate statistics are worse for SEs but simultaneously birth rates tend to be even higher for social ventures. Thus, exit and entry rates showed that still there is no maturity in the field though the future is still ahead. Steady overall growth is monitored in the field that is a good indicator. Employment/involvement analysis illustrates that some companies reveal specific indicators of sustainability especially the ones with medium or long history. However, such companies are not that many. Recent start-ups have yet to prove that they can become sustainable.

5.2 Suggestions for future research

Future research may have more of a qualitative nature. In-depth interviews can be conducted to understand the challenges that social entrepreneurs face. Also time will test the long-term sustainability of newer social enterprises in Sweden and around the world. Additionally, sustainability of social ventures may be assessed at the business model level to find out which of them benefit to long-term stability and growth.

Relative sustainability can be also determined by comparing Swedish figures to international ones. Also it would be interesting to analyze the major reasons of exit. Finally, several other kinds of social enterprises can be researched besides the work-integrating ones to have a more complete picture.
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## Appendix

### Table 3. Explanations of Figure 8 Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-</td>
<td>Cumulative current employment figures of companies founded before certain years (inclusive)</td>
</tr>
<tr>
<td>Pre %</td>
<td>Percentages of current employment figures of companies founded before certain years (inclusive)</td>
</tr>
<tr>
<td>Year Emp.</td>
<td>Current employment figures of several cohorts</td>
</tr>
<tr>
<td>Comp. Cum.</td>
<td>Cumulative number of companies founded before certain years</td>
</tr>
<tr>
<td>Comp.</td>
<td>Cumulative percentage of companies founded before certain years</td>
</tr>
<tr>
<td>Number of companies</td>
<td>Number of companies founded in certain years</td>
</tr>
<tr>
<td>Average Job</td>
<td>Average job creation of certain cohorts</td>
</tr>
<tr>
<td>Minimum employment</td>
<td>Minimum employment figures of certain cohorts</td>
</tr>
<tr>
<td>Maximum employment</td>
<td>Maximum employment figures of certain cohorts</td>
</tr>
<tr>
<td>Median employment</td>
<td>Median employment figures of certain cohorts</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>Standard deviation of job creation figures for certain cohorts</td>
</tr>
</tbody>
</table>

### Table 4. Explanations of Table 2 Abbreviations