
What will
**Social
Enterprise**
look like in
Europe by
2020?

Foreword

Social enterprises are transforming lives and delivering positive change around the world and their scalable, replicable solutions to social and environmental problems support a more open, sustainable and prosperous future for all.

The presentation of a vision for social enterprise in Europe 2020 fits well with the British Council's Global Social Enterprise programme, and particularly to our emerging focus on this sector in Europe. Overall, the programme supports our cultural relations mission: to build trust and create opportunities between people and institutions in the UK and other countries and help them to contribute to a more inclusive, sustainable and prosperous future. Globally, we support dialogue and debate on social enterprise by using our reach in more than 100 countries. In many countries including India, Greece and China, we also support social entrepreneurs through training and access to investment. In Europe, we are particularly committed to reaching unemployed and disadvantaged youth and recognise the demand for new solutions such as social enterprises to tackle social and economic challenges.

As a contribution to the European Commission's event Social Entrepreneurs: Have your Say in Strasbourg 16–17 January 2014, the British Council commissioned a specific think-piece 'What will Social Enterprise look like in Europe by 2020?'

The views expressed in this document are based on a series of interviews with social enterprise experts and do not necessarily reflect the position of the British Council. We commissioned Mark Richardson and Richard Catherall to author this piece and are indebted to them for their work. A draft of this vision was shared during an online panel discussion via The *Guardian* partner zone (www.theguardian.com/british-council-partner-zone) and further ideas were exchanged ahead of publication. Key elements of this debate are captured in the #SocEnt2020 Appendix at the end of the document.

The vision offers an opinion of where social enterprise might be heading in the coming years in Europe and deliberately aims to provoke debate and discourse. We hope this document provides a basis for further discussion and re-formulation and serves a useful purpose as we all look to a strong future where social enterprises and social entrepreneurs really do 'have their say' in Europe and beyond.

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Introduction

It is 2013 and social enterprise has become a small but integral part of the world's economy. Its influence and impact grows year by year. There are many factors that shape its development: economic conditions, social and environmental challenges, government policies, technology and investment, to name but a few. The question is, how will social enterprise respond to these influences over the next few years – what might social enterprise look like by the year 2020?

This brief paper is one attempt to answer that question.

Will there be any need for a social enterprise sector in Europe by 2020?

Already, in 2013, traditional voluntary organisations, charities and associations across Europe are embracing social enterprise: trading for social purpose and reinvesting any profits. The economic and political climate is forcing all but the smallest, volunteer-led organisation to consider service delivery contracts or other forms of earned income streams. By 2020 almost all charities and associations will be somewhere on the 'social enterprise spectrum' – generating some if not all of their income through trading activities.

Meanwhile, by 2020, more and more private sector businesses will have to demonstrate their social credentials, and many of them will be better at this than traditional social enterprises. Legislation at national and European level is putting social value as a more central component of public sector procurement. Government employment programmes encourage private businesses to take on unemployed people and invest in their training. Internet campaigns expose the dirty practices of large corporates, forcing more ethical behaviour. Small and medium-sized enterprises (SMEs) are seeking ways to generate customer loyalty, or simply to give something back to and engage meaningfully with their communities. Many private businesses will fall within the broad definition of social enterprise by 2020 – delivering increasing social value and reinvesting some of their profits for social purpose.

At the same time, across Europe, governments will be contracting rather than delivering more and more services in healthcare, leisure, criminal justice, social care, education and a host of other areas. These contracts increasingly blur the boundaries between public services delivered by government and public services delivered for government. Many traditional social enterprises will struggle to preserve their social innovation, client centred approach and independent voice within the tight constraints of service delivery contracts. And for-profit companies will compete to deliver the same services for lower and lower cost. Competitive tendering will force down the wages and employment conditions of employees. For many people, social enterprise will come to mean the privatisation of public services by the backdoor.

In many countries in Europe and beyond, particularly in emerging economies, there will still be little understanding of social enterprise as opposed to enterprise. When the biggest social problem is unemployment any enterprise creating jobs, particularly good jobs, is delivering a social benefit.

In a Venn diagram the independent circles of charities, for-profit business and public sector will overlap more and more, and the space in the middle, the social enterprise activity, will grow. But if, by 2020, this social impact activity is being carried out effectively by other sectors, what role do traditional social enterprises – independent not-for-profit, social purpose businesses – still have to play?

There will be a move from sector silos to a spectrum of social impact

Definitions of social enterprise have always been vague, with arguments over essential characteristics. But as boundaries between sectors blur, governments, funders and investors will move away from defining social enterprise according to legal structures and instead start to categorise organisations according to their ability to deliver a social return on their investments. The debate will no longer be about how to define social enterprise, but how to agree, measure and compare social impact.

By 2020 social impact measurement will not only be mainstream in the social economy, amongst social enterprises, charities and associations; there will be mounting expectation in both public and for-profit sectors too. Social impact measurement and reporting will become increasingly sophisticated with the result that all organisations will be judged on a 'Social Impact Spectrum, affecting the way buying, giving and investing decisions are made. In fact, by 2020 many organisations will produce an annual impact statement covering social, environmental and economic impact.

The existence of an agreed Social Impact Spectrum, from positive, through neutral, to negative will allow society to judge all organisations according to their genuine social benefit. No more greenwash. No more publicity-focused corporate social responsibility (CSR). Traditional social enterprises will no longer be able to claim they are better than private or public sector organisations just because of their business model or legal structure. Instead superb, ethically run businesses will compete with the best social enterprises and most outstanding public services to be at the top of the Social Impact Spectrum, delivering enormous social good for minimum financial input. And poorly run, ineffective social enterprises will find they are judged to be delivering limited or even negative social value. Long-standing programmes delivered by public, private, and social economy organisations will close as new models are able to demonstrate far greater social value.

By 2020 people will no longer care what sector your organisation notionally sits in, they will care only about the long-term results that you produce, and how much it costs to deliver those. Governments, funders and investors will demand higher and higher standards of proof of a social return on their investment. More resources will be invested in the measuring and demonstration of social value, but far less will be wasted on ineffective programmes that only deliver superficial or short-term results. Instead money and resources will go to those organisations that can demonstrably deliver the greatest social impact for the least input.

Simply claiming to be doing good work will no longer be enough. Social enterprise will cease to be a label behind which to hide poor businesses. But equally the best social enterprises will deliver a better social return on investment than the best for-profit, public or charitable association. By generating an income and yet prioritising social over financial returns the best social enterprises will provide outstanding examples of what positive social impact really means.

This move to a world of measuring and proving your social impact will not be an easy one for most traditional social enterprises. Most are small with shoestring budgets. Good impact measurement can be costly, particularly when it is first implemented, with investments to be made in new systems, staff training and external expertise. Public sector organisations, corporates and even larger SMEs typically have more resources and more money to invest in this area. So today's social enterprises may find, in 2020, they have to work extra hard to prove their social value, if they haven't invested in this area. In a more connected culture it will not be a surprise to see small enterprises collaborating to quantify and demonstrate their impact, especially where their ideas combine for greater social value.

Social finance will become mainstream

A large driver for improved social impact measurement will be the growth and development of the social finance sector. In turn, the mainstreaming of social impact measurement will drive further growth in social finance. Longer investment terms and longer-term measures of success will help to focus on long-term impact, not just easy-to-measure outputs.

By 2020 the traditional model of foundations investing money for maximum financial return and then giving that money away for social benefit will seem hopelessly flawed and outdated. Instead foundations will be

monitoring their social impact across all their investments and grants, and looking to maximise their overall social return.

Pioneering models of social investment such as Social Impact Bonds and Social Investment Bonds will bring together private investors, charitable funders, governments and social enterprises in new and more intimate relationships. This will have an initial impact of increasing the availability of private sector money for social causes and reducing the risk to both the public purse and to the social enterprises themselves.

These new hybrid models which help to monetise social outputs will also begin to unlock the vast financial reserves of pension funds for social investment. A similar shift will occur as the hundreds of millions locked up in the reserves of charities and associations begin to be invested for a blended return of social and financial profit, not just to maximize financial return.

By 2020 there will be a growing category of social enterprises that are geared to maximise social impact while also delivering a financial return. They will become increasingly 'professionalised' as the emphasis moves towards 'investment readiness', and impact reporting. This growing supply of investable social enterprises will lead to mainstream financial institutions offering social investment products, partly as a way to rebuild their reputation.

The closing gap between commercial and social finance will intensify the pressure on investors to consider social and environmental impact in all of their investments. As the social finance sector grows, the movement of staff between commercial and social sectors will spread some of the ethos and practices of social finance, and magnify the transformative impact that social enterprise practices are having on for-profit business.

At the same time social enterprises will become more involved in the delivery of financial services themselves. Trusted social enterprises with their roots in poor communities will offer bank accounts and loans to people otherwise excluded from mainstream financial services. They will partner credit unions, financial mutuals and commercial banks; gradually taking custom away from both high street and doorstep lenders as the public look for financial services with integrity.

But while the growth in social finance will bring huge benefits to many social enterprises, there will be difficult transitions to make. 2020 will see governments start to invest less money in social programmes, increasingly only paying for results that can be proven to save the government money. Large new sources of social finance will bring greater competition from the corporate sector which has greater resources to invest in impact measurement and reporting than the traditional social enterprise sector.

The growth in social finance will lead to more and more funding being available as a loan or an investment rather than a grant. Foundations, European funds, and government programmes will all start to look for financial as well as social returns. Organisations and social causes which are not most appropriately dealt with through debt or equity finance will nevertheless find themselves pressured to follow that path.

And as the funding pendulum swings away from grants towards loans and venture capital, priorities start to be assessed based on which social outcomes can be profitable, monetised or marketised. Social issues where it's difficult to put a financial value on the outcomes will become much harder to fund. This will lead to a new 'underclass' of social causes. Meanwhile some of those causes that have been difficult to fundraise for in the past, such as work with ex-offenders, will become fertile ground for social investment.

The other shift in funding priorities that will occur in this move from grants to investment is a shift from short-term funding of new and innovative ideas towards investment in proven ideas and concepts. Some movement in this direction is most certainly to be welcomed, but there is a real danger that the social enterprise 'engine of innovation' is starved of fuel.

The drive for social enterprises to become investment-ready will lead to increasing demand to develop the skills, particularly business skills, of their leaders. Experienced business leaders will be brought in from the for-profit sector, but by 2020 there will also be far more resources put into developing the skills of indigenous social enterprise leaders. This will be supported by a raft of courses and qualifications in social enterprise from universities and business schools. Their growth will be driven by the move of the for-profit and public sectors into the social enterprise space, as much as by the demands of social enterprises and investors.

There will be a swing away from innovation towards scale and replication

The increased levels of impact measurement, reporting and investment seen by 2020 will mean that innovative social enterprises delivering high levels of social value will be under pressure to scale up their activities rapidly to have national and even international impact.

Just as traditional finance drove businesses to become bigger and bigger, so social finance could do the same for social enterprises. Some social enterprises will have enormous turnovers by 2020. A pan-European cadre of leading social enterprises will develop, tackling complex issues. They will inspire investment. They will contradict and challenge the discourse in equal measure. They will define themselves by their impact, culture, successes and what learning they can share. These large social enterprises will break out of being at the margin of marginal sectors and challenge mainstream business models, governance and leadership.

The challenge for these mega-social enterprises will be to keep their distinctive social enterprise DNA: the corporate sector is full of businesses which started with strong social values that were gradually eroded in pursuit of profit and shareholder value. And it is much harder for a large organisation, whatever its motivations, to remain responsive to the needs of its stakeholders. The focus on geographic expansion will put pressure on locally centred social enterprises such as development trusts, risking damaging their distinctive and most precious asset.

One solution to the dilemma of how to grow social enterprises that work without losing what makes them special is social franchising. Although modelled on commercial franchising it requires a much greater level of partnership between the franchisor and the franchisees; usually independent, community-based social enterprises.

Social franchising will help to scale great ideas rapidly across Europe and beyond. By 2020 specific investment funds will have been established to franchise effective models and social franchise intermediaries will have taken root. This will all help social franchising become more professional and develop into a distinct sector in the same way as commercial franchising.

Social franchises will provide community-based social enterprises with new streams of income and more professional services, building on rather than destroying their strong community roots. It will offer an opportunity to balance the need to disseminate good models and retain local ownership and knowledge.

Social franchises will also be taken on by traditional charities and associations, by churches, schools and local authorities, and even by for-profit businesses. Again this will continue to blur the lines between sectors and organisations, increasing collaboration and co-operation, and facilitating the spread of good social enterprise ideas beyond the social enterprise sector.

Complex networks will transform social enterprise

Our understanding of scale will become more sophisticated. By 2020 the pioneers shaping social enterprise activity in Europe will no longer consider scale in blunt terms of turnover, profit, or numbers of beneficiaries reached. Success will not be measured by longevity. Instead social enterprises will be more concerned with, and more conscious of, the scale of their impact. Impact through changing the business practices of others, through changing government policies, through spreading solutions that work. Some of the most successful social enterprises will do themselves out of a job

The increasing interconnectivity of social entrepreneurs will also see a trend of highly networked micro-social enterprises, collaborating across international boundaries. Strong connections will be made to tackle a specific social issue and will then dissolve again for new connections to be made: crowdsourcing expertise and capacity as well as funding. For young people in particular, the 'digital natives', this direct, collaborative approach to solving local and global problems will become an attractive alternative to organised political participation.

Over the past 50 years for-profit business has gone global, with large corporates spanning countries and continents. Government has not done the same. The result is an imbalance in the world of financial profit prioritised over social value. But by 2020 the growth of social enterprise as a concept will be at the vanguard of spreading democracy, equality and opportunity for the disadvantaged across Europe and beyond, nation building, and crossing international borders in a way that governments cannot.

Co-operation and collaboration across national boundaries will be encouraged by European funding and policies, facilitated by ever more powerful technology, and driven by more accurate, comparable and useable social impact reporting. Those social enterprises trying to solve similar problems, or carving out a niche in a particular market will be able to share learning. Social enterprise models that are effective will spread through this informal sharing, even more rapidly than through more formal mechanisms like licensing or social franchising.

So if not a sector, what will social enterprise become?

Social enterprise has never been about a sector, about legal structures or models of governance. It is about working at the margins; pushing the boundaries of what's possible, working with the people and problems failed by for-profit business, government or traditional charity.

The role of social enterprises in 2020 is still to take risks and push the boundaries. But the boundaries will have moved. Mainstream charities and private businesses will be carrying out much of the work that is now being developed by cutting edge social enterprises. Some of today's social enterprises will have become the mainstream charities and businesses of 2020. But some will continue to innovate and challenge, and new ones will develop. The nimble, adaptable, shoestring budget social enterprises will continue to act as Europe's Research and Development lab, inventing and testing better ways to make a better society. The successful innovations will become mainstream, the unsuccessful ones will not.

One of the big changes to social enterprise by 2020 will be our attitude towards failure. Recognising that social enterprise provides a research and development function changes our expectations. Social enterprises that fail for trying something new are no longer seen as something to be ashamed of, but important steps on the way to success. Inspired funders and investors will set aside money for these high-risk investments, assessing their social return not on a project-by-project basis, but across a portfolio. In the same way that venture capitalists expect one investment in ten to pay for the nine that don't work, so venture philanthropy will come to expect the social return from the big success stories to make up for the ideas that don't achieve all they set out to.

Considering social enterprise as a research and development lab should also change the conversation around competition and collaboration. By 2020 social enterprises will no longer be talking primarily of competing with the private sector for business. Instead there will be greater emphasis on co-operation: social enterprises actively working with for-profit, public and charitable sectors to develop more effective solutions to social problems and rolling out those innovations into the mainstream.

Universities and schools will increasingly feature social enterprise as a core component on their curriculum, an integral part of many subjects. Often this will be driven by social enterprises themselves, collaborating with the education sector to inspire and equip the next generation of social entrepreneurs. This will further expand the breadth of disciplines in which social enterprises are active, generating an explosion of highly educated social entrepreneurs in a wide range of disciplines; from art to engineering; from sports science to micro biology.

Legal frameworks, financial instruments, and support infrastructure can all speed up or slow down the rate of social enterprise development, sometimes in unexpected ways. They can help make social enterprises more efficient or effective. But the social entrepreneurs, the disrupters, the change-makers will find a way of working within the confines of whatever environment and whatever market they are in to find a better solution to any given social problem. They exist not simply to sell in to markets but to make and shape markets: not to commercialise social problems but to revolutionise our approach to them.

In 2020 social enterprises will operate at the cutting edge of a range of complex social issues

Unemployment, particularly youth unemployment will remain stubbornly high in 2020, but the great success stories will be coming from social enterprises working with those most excluded from the jobs market; creating new jobs for disadvantaged people and in areas of poverty and deprivation. In many areas the only jobs that exist will be those created by social enterprises. It is in this area that we can expect to see young people leading the solutions themselves, through high impact businesses.

Encouraged by social investors using gender equality as a proxy for good management, social enterprises will increasingly demonstrate the value of gender balance at all levels of an organisation. As sector boundaries blur this will spread more and more rapidly into the public sector and for-profit businesses.

There will be a new wave of environmental entrepreneurs, setting up and running social enterprises to tackle the issues of water, energy and climate change. They will provide practical leadership; spreading effective practice across Europe and beyond; offering global solutions while governments haggle over short-term national interests. And the success of these social enterprises will not be measured purely in terms of their own social outputs, or financial sustainability. It will be measured in part by how effective they are at creating an environment where a truly sustainable for-profit sector can flourish, and at paving the way for effective government action.

A conclusion...

There may well not be a recognisable 'social enterprise sector' by 2020. Certainly any attempts to confine social enterprise to specific legal structures or models of governance will have ceased. But the concepts and ideals of social enterprise will be spreading rapidly into all corners of society, becoming mainstream. All organisations, whatever their ownership model, will be judged on a spectrum of social impact. Social finance will create new opportunities and with it new threats; driving organisations towards models that deliver a social and financial return. Investment will move from innovation towards replication of proven models; from short-term outputs to long-term impact. Complex networks will lead to cross-border collaboration and the rapid spread of successful ideas.

And social enterprises themselves? They will be where they should be; working at the margins but no longer marginalised; creating and shaping markets; pushing boundaries; building nations; and creating the space for governments, charities and for-profit businesses to follow.

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#SocEnt2020 Appendix

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This appendix aims to capture, to date, the essence of the vigorous debate across Europe and indeed the world provoked by the Europe Vision 2020. The following themes have emerged:

- Utopia versus dystopia?
- Just research and development or production?
- Growth, more through replication or network?
- The role of governments.
- The social problems to address.
- Impact measurement.
- Definitions.
- Legal structures.
- Ambition.

Utopia versus dystopia

Overall the Vision has met with a very positive response. Reactions range from those who see it as a 'ridiculously optimistic utopia', others as a 'dreary corporate dystopia'. But while controversial, most saw it as striking a middle ground between these two extremes. This reveals a rift that exists in the social enterprise movement between those who wish to work more closely with the corporate sector, to trade with and influence it for example, and those who want to work in opposition; between those who think salvation lies in better adoption of business principles and those who believe that business principles are replacing social principles. Some people have even questioned whether social enterprise is of benefit at all, or just a 'sticking plaster' helping to mask the fundamental inequalities of a market-led economy.

Just research and development or production?

Many people agreed that in bringing innovative solutions to social issues, social entrepreneurs are increasingly acting as 'Europe's research and development lab'. There was a difference of opinion about whether the right (or only) way to scale was through partnerships with large corporates. Many felt that social enterprises should also be the 'production' department, creating products and delivering services, keeping the money circulating in pursuit of social goals and not private profit.

Growth, more through replication or network?

There was disagreement about the best way for social enterprise to scale up in order to challenge the supremacy of corporate business, and some also questioned the dominance of the non-profit sector in some areas. Some felt it was through very large 'mega-social enterprises', others felt the key was in co-operation. The development of a more efficient network of social enterprises working together could become more powerful than any one single organisation, just as, through the internet, many interconnected PCs have become more powerful than a supercomputer.

It was also argued that the networking and sharing of learning and resources is not just taking place at the 'coalface' with hyper-networked social entrepreneurs however. It is also happening between support intermediaries, governments, investors and facilitators. This all contributes to speeding up the global pace of change for social enterprise and the environments in which they operate. The more joined up the advocates of social enterprise become, the more powerful their voice, whether speaking to the G8, the UN or the World Bank.

The role of governments

It was argued that we should not underestimate the important role of public policy in creating the right environment and ecosystem in which social enterprise can thrive. More governments are trying to create a conducive ecosystem for social enterprise, and trying to level the playing field for social enterprises in public procurement. If, however, governments are to be truly effective at creating the right environments for social enterprises to flourish and markets to work, siloed thinking and budgets need to be broken down.

Greater recognition of the complexity of many social problems should mean a more joined-up approach to tackling them, treating the causes of social problems not the symptoms.

Perhaps considering social enterprise in a more holistic context would itself help to level the playing field. For example, in the UK returns to investors in community interest companies are capped. Why should this not apply to all businesses?

The social problems to address

Although there are national and regional differences, many of the social challenges we face are global in nature: jobs, housing, healthcare, education, food. Successful social enterprise models are beginning to spread. The ways to create a healthy social enterprise culture are spreading even more quickly. Successful interventions, financial instruments and models are crossing the globe with growing rapidity.

Contributions identified a number of issues of importance where the vision was silent; the growth of the circular economy, of the leasing economy and an opportunity for social enterprise; sustainable food production; and a growing awareness of the interconnectedness of environmental and social objectives.

It was agreed that unemployment is one of the biggest challenges in Europe to be addressed by social enterprise. Social enterprises have been shown to deliver a greater number of sustainable jobs than comparable for-profit businesses, so ensuring more social enterprises than for-profits deliver work would actually be a sensible way to tackle unemployment. To do so, social enterprises need to deliver genuine job creation, for people and communities neglected by the for-profit sector. Work training programmes without job creation is like shuffling deck chairs on a sinking ship; they simply help person X get a job instead of person Y.

Impact measurement

There has been considerable debate over the feasibility and value of impact measurement. Many people are concerned that while such measures may be adopted by wealthy corporates, SMEs, including most social enterprise, may find impact measurement too great a burden. Others argue that impact measurement is a core duty of any socially driven organisation: how else can you know whether you are really achieving your social aims, or how to improve?

While examples of good practice and consumer relations may drive some adoption of impact reporting, wholesale adoption of genuine impact reporting will need to be driven by government intervention; whether in the form of legal requirements on companies, tax incentives or other measures.

It was also recognised that while progress was being made, there is a long way to go before an agreed standard of impact measurement and reporting can be reached. While a global standard exists for financial accounting some questioned whether the very different social environments that exist around the world could be accounted for under one universal system. Others called for a challenge to the global accounting standards to include social and environmental impact reporting, forcing all companies to make social and environmental returns.

Many people questioned the premise that social impact can be separated from an organisation's model of governance and ownership. It could be argued that the inherent value of social enterprise would also be quantified and accounted for in any impact measurement. Is (or should it be?) participatory decision making included in impact measurement, for example?

Many felt that if social enterprise activity is taken up by other sectors we actually lose something very valuable in the process. The community ownership intrinsic to so many social enterprises could be lost. The principle of putting people ahead of profit, and profit back into people could be eroded.

Definitions

The definition of 'social enterprise' is becoming more widely agreed nationally and across Europe, although translation and different interpretations make this more difficult globally. It was suggested that an agreed definition is important for administering tax incentives, but also for building public support behind social enterprise, sharing a common brand that can become a commercial asset. Could the Social Enterprise Mark help raise public awareness in the way the Fairtrade Mark has for fair trade; helping to raise public awareness of and support for social enterprises towards the 80 per cent level seen in Hong Kong? Or will it find itself fighting to restrict social enterprise to too narrow a definition?

Where there are still details of definitions to be agreed, the focus should be on solid, tangible things: mission lock, profit, reporting of impact, trading, ownership, things governments can affect.

Legal structures

Different legal structures might be needed to suit different cultural conditions, not just social enterprise. Structures that can 'lock in' the social mission of an organisation are vital to stop the most profitable ventures simply being bought out and run for financial ahead of social profit.

Ambition

There was a strong call for an even greater ambition for social enterprises themselves. There is no limit to the fields in which social enterprises can operate. More utility companies, rail companies and supermarkets should and could be run as social enterprises. As a society we should be aiming for an ever greater proportion of our services to be delivered by not-for-profits, with social value prioritised over financial value, and all financial profits reinvested in the pursuit of greater social profit.

One of the biggest barriers to enterprise is our attitude towards failure. Until failure can be seen as an integral part of the route to success, an opportunity to learn what doesn't work, entrepreneurship will be limited.

Not a conclusion

This appendix is a continuation of the debate, but by no means is it a conclusion. We hope the debate will continue as we work collectively to establish the future of social enterprise in Europe and beyond.
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