Social enterprises are organizations that fulfil a social mission through the use of market mechanisms (Seelos and Mair, 2004). An orientation towards multiple, potentially competing goals such as social and economic value creation suggests possible tensions in social enterprises due to accountability to multiple stakeholders (Ebrahim et al., 2014). These challenges have been identified as the underlying reason for social enterprises being prone to mission drift – losing sight of their social mission or downwards accountabilities, while focusing too much on profit generation or upwards accountability to stakeholders such as capital providers (Cornforth, 2014; Ebrahim et al., 2014). Governance has been identified as a key mechanism to ensure that social enterprises “stay hybrid” and thrive, while fulfilling multiple goals and multiple accountabilities (Kraatz and Block, 2014; Mair et al, 2014). In particular, scholars and policy makers alike have discussed the following key governance aspects that may support and enable social enterprises to thrive and make sure they contribute positively to society:

- **Legal forms:** Both in policy and scientific literatures, the question of special legal forms that makes it easier for social enterprises to remain true to multiple goals and accountabilities over time has received much attention. (Cooney, 2013; Brakman Reiser, 2010)

- **Board governance:** Research on governance discusses aspects such as multiple board functions (Mair et al, 2014) and board diversity – representation of multiple stakeholders on the board (Pache and Santos, 2010). Recently, there has also been push-back on the issue of board diversity with the argument that too much diversity can make boards dysfunctional (Crucke and Knockaert, 2016).

- **Reporting and transparency:** The general challenge of measuring social performance and ensuring transparency in the social sector is highly salient for social enterprises (Ebrahim and Rangan, 2010). Due to their hybrid nature, these organizations are often under scrutiny when it comes to the appropriate use of their profits and surpluses.
Although not all governance issues can be addressed through regulatory measures, in some regards appropriate policies can support social enterprises in facing governance challenges and establishing practices and structures that meet their particular requirements. In the following section, we report our findings regarding the legal form, board governance, transparency and reporting practices, and accountability in social enterprises. We develop policy implications and recommendations that may contribute to supporting social enterprises individually and the social entrepreneurship sector more broadly.

### 1. Legal forms

Social enterprises in our sample incorporate under a variety of legal forms. In some countries (for example, China and the UK) the majority of social enterprises have a for-profit legal form, whereas in other countries (for example, Romania, Hungary, Germany) social enterprises have mostly non-profit legal forms (figure 1). There is also a general tendency of younger organizations in all countries to be registered as a for-profit rather than as a non-profit (figure 2).

![Figure 1: legal forms across countries](image1)

**Figure 1: legal forms across countries**

![Figure 2: legal forms across age groups](image2)

**Figure 2: legal forms across age groups**
The Community Interest Company (CIC), the special legal form for social enterprises established in the UK in 2005, is used by only 10% of interviewed organizations. However, we find that new social enterprises increasingly adopt this legal form in the UK, which shows the interest in hybrid legal forms.

Social enterprises also use legal forms flexibly in order to conduct their activities and respond to external pressures: they combine for-profit and non-profit legal forms. For instance, 40% of the UK organizations have a second legal form. Social enterprises from another five countries (China, Germany, Portugal, Spain and Sweden) reported dual legal forms as well (figure 3).

![Hybrid legal forms across countries](image)

Figure 3: hybrid legal forms across countries

When proposing new policies to European institutions and the national government, administrative complexity and government regulation was the second most mentioned category by the CEOs of social enterprises surveyed (22.5%). Within this category, 11.3% of social enterprises advocated for a special legal status for social enterprises, with variation across countries: 26.17% of Chinese social enterprises advocated for a special legal form, 29.13% of Hungarian ones, 15.18% of Portuguese social enterprises, and less social enterprises in Germany (10.19%) and Sweden (10.00). In the UK the proportion of social enterprises advocating for a new legal form was lowest (0.74%), as the CIC legal form has already been established.

2. Board governance

Board of trustees

86% of interviewed social enterprises have a board with formal decision-making power. Across countries, China was the country with the lowest share of organizations with a board (69%) followed by Germany (82%). In all other countries, over 90% of the organizations indicated to have a board. 80% of organizations set up a board for compliance reasons (as a legal requirement or a requirement from a funder) and only 20% reported to have set up a board for substantive reasons such as a mechanism to receive external advice and feedback or balance interests of different stakeholders.

Regarding board composition, we find that board diversity is limited. Only 22.8% of the organizations indicated to have 3 or more stakeholders represented, while 41.7% of the organizations have only one type of stakeholder on the board. Board members with either a social sector or business background constitute the most frequent stakeholder groups across all but one country (figure 5).
Board inclusiveness, understood as involving beneficiaries in the board, we find, is highest in Sweden (30.8% of social enterprises have at least one beneficiary on the board) and Hungary (30.6%) and lowest in Germany (4.6%). 90% of the boards across countries also include women.

Regarding the functions that the board fulfills, the control function (including tasks such as financial oversight, monitoring programs & services, evaluating CEO, internal policy, monitoring own performance) and strategic function (planning for the future of the organization) are the most frequently mentioned (figure 6). Fewer boards engage in service functions (including tasks such as fundraising, community relations, influencing policy, educating the public, being a sounding board for management). Least prevalent across all countries were innovative functions associated with hybrid organizations (including tasks such as hiring or balancing social and economic interests).

Across all countries, 44% of the organizations had a board fulfilling tasks corresponding to one function (control or service), while 29% stated to fulfill tasks corresponding to two functions at the same time. Only 2% of the organizations reported to fulfil tasks corresponding to three functions at the same time.
Advisory boards

27% of the social enterprises in our study also have advisory boards in place as governance bodies. The majority of organizations which have advisory boards are in China (52% of social enterprises) and in Germany (51% of social enterprises). The smallest share was registered in Spain where 5% of organizations have an advisory board. The largest advisory boards with an average of over 10 members can be found in Germany and in the UK.

The qualitative case studies show that advisory boards often emerge from personal networks of the social entrepreneurs. Advisory board members usually assume a service function for the organization as they engage in fundraising, providing know-how and contributing to the visibility and reputation of the organization.

3. Reporting practices

65% of social enterprises in the sample are measuring their social performance, the highest value being registered in Portugal (97% of social enterprises) and the lowest in Spain (48% of social enterprises) (figure 7).

The most commonly used indicator by the social enterprises is the number of beneficiaries. This is the case in all countries except Sweden, where the most commonly used indicator for reporting is the satisfaction of the beneficiaries with the services and products provided to them.

Reporting efforts are targeted at the capital providers of the organization. Capital providers usually influence the reporting processes of the organization through their requirements regarding reporting dimensions. Still, social enterprises also construct their own indicators based on their specific activities (for example, behavior change, nutrition values, number of clicks).

Reporting frameworks are starting to be implemented also at the field level, so among the broader population of social enterprises in a country. For example, the Social Reporting Standard is being promoted at a larger scale in the social sector in Germany with the aim of coordinating reporting practices among organizations and of ensuring more transparency in the social sector in general.

Most social enterprises report to their capital providers, public authorities or the general public. We also observe that for-profits and CICs are more selective in their reporting to specific target groups: most report to 2 or fewer groups. Most non-profits, co-ops and dual legal structures report to slightly more groups on average (3 or less). Thus, reporting practices in non-profits, co-ops and dual legal structures are somewhat less homogenous than in for-profits and CICs.
Overall, social enterprises in the sample feel more accountable towards their beneficiaries and less towards their capital providers. Still, while not many organizations reported to feel accountable towards their capital providers, the share of organizations reporting to them is much higher. On the other hand, while more social enterprises feel accountable to their beneficiaries, only 11% report to them (figure 8). A deeper understanding of this misalignment can prove important for preventing mission drift of social enterprises.

![Figure 7: accountability and reporting practices](image)

### Figure 7: accountability and reporting practices

1. **Legal form**

   **Choosing the appropriate legal form**

   Social enterprises signalled the need for support in deciding on the appropriate legal form of the organization. Navigating the fiscal and legal requirements attached to individual legal forms has been signalled as challenging. More comprehensive guidelines regarding the constraints and opportunities related to each legal form could be useful for social enterprises.

   **Safeguarding the social mission**

   Younger social enterprises increasingly adopt for-profit legal forms that allow them to generate income from the market. However, this raises questions about how to safeguard their adherence to the social mission. Developing more inclusive measures that allow for-profit organizations to legally bind themselves to a social mission while allowing them to operate on the market and generate profits may help to ensure long-term compliance with dual performance objectives.

   **Using dual legal forms (traditional hybrids)**

   Social enterprises deal flexibly with legal forms by combining traditional non-profit and for-profit legal forms. Due to this, many do not see the need to establish a distinct legal form for social enterprises. Operating with dual legal forms, so having two legal entities can be a desirable alternative for particular cases and contexts, such as settings in which there is no special legal form for social enterprises or where fiscal legislation is very strict.
Developing distinct legal forms
The need for new legal forms is not the main priority, as social enterprises show creativity with existing forms, structures and regulation and only 11% mentioned this is a need. Introducing new legal forms would require more in-depth analysis of the regulatory implications in different contexts.

2. Board governance

Going beyond compliance
Board governance in social enterprises has a strong compliance focus. Most organizations perceive board governance as a duty rather than an opportunity. This is mirrored also by the emphasis on control and strategy as tasks of the board. However, boards can be used as a resource for tackling barriers and for dealing with ongoing challenges of social enterprises through the expertise of the board members. Differences in board composition even among those social enterprises that set up a board for legal reasons suggest a turn towards boards being used as a resource by the organizations. A stronger emphasis on this alternative role of the board can contribute to the social enterprise managing multiple stakeholder groups and organizational goals.

Putting governance on the agenda early on
We find that, in the starting phase, social enterprises focus more on activities and operations of the organization and have the tendency of not treating governance as equally important. This often generates problems at later stages of development when challenges emerge and the organization lacks a mechanism to steer, provide direction and feedback. This may also be connected to the fact that available funding for social enterprises is not allocated primarily for governance and matters of internal organizational development, which limits the capacity of social enterprises to concentrate on these issues. Providing more support for organizations to establish adaptive governance structures and practices that may support them in times of growth, change and crisis may contribute to making social enterprises more successful and less prone to mission drift. Providing this support from the starting phase can help the organization adopt measures that can substantially influence its trajectory.

Fostering multilevel governance
Governance is not limited just to the board structure. Multilevel structures such as committees or positions in the organization that bridge the different social and commercial activities of the social enterprise can have an important contribution for effective governance and can contribute to ensuring accountability to multiple stakeholders. For instance, beneficiary committees can advise boards on a regular basis in matters that concern the target group. Generating awareness on the potential roles and contributions of the advisory board can also reduce the attention and pressure placed primarily on boards with decision-making power. As boards with formal decision-making power in social enterprises predominantly assume strategic and control functions, advisory boards may be an important provider of service functions, such as fundraising, community relations, influencing policy, educating the public.

3. Reporting and transparency

Using reporting as a learning tool
Social impact measurement and reporting practices should become a learning and reflection opportunity for social enterprises in regard to their performance, development and impact. The majority of social enterprises use output measures to illustrate their social performance. Although some organizations also develop qualitative measures, due to their limited
comparability, these are not as widespread as quantifiable data. However, we find that some organizations develop qualitative performance measures for internal use in order to adapt and improve their services. Supporting the development of systematic qualitative performance measurement within organizations can help social enterprises to ensure quality of their services, trigger learning processes and adapt services and products to changing needs. Establishing a culture that does not only encourage communicating successes but also learnings and failure may strengthen the quality of social service delivery more broadly.

**Adapting reporting expectations and going beyond standard measurements**

The requirements of funders strongly influence the way in which social enterprises report. The funders also often apply standard measures from the business sector to these organizations. Many social enterprises struggle with the extensive reporting requirements to multiple types of funders and invest a large amount of resources in measurement and reporting activities that may not directly benefit the organization. Encouraging funders to be realistic about the amount of reporting that organizations can provide could prove useful. Additionally, it is important to also encourage reporting practices that build upon customized indicators used by social enterprises in order to generate knowledge also for particular social domains.

**Collecting publicly available data**

As in the case of commercial companies, social enterprises could benefit from a more systematic collection of indicators also made publicly available (for instance on their revenues, number of employees and beneficiaries, etc). This would increase the overall transparency of the social sector and would also allow for a more accurate analysis of social enterprises and their performance also in comparison to commercial ones.

Overall, we recommend that policy frameworks protect the agility and flexibility of the governance arrangements of social enterprises. The heterogeneity of social enterprises and their governance arrangements indicate the limitation of regulation in regards to governance and stress the importance of creative and adaptive processes and practices of social enterprises in regards to how they govern and are governed.

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**RESEARCH PARAMETERS**

SEFORIS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORIS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

SEFORIS investigated key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we started from policy and social enterprise practitioner questions and challenges together with critically scrutinising existing academic literature. We used this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This was followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social
enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice. The project is divided into 10 work packages. WP1 to WP3 are mainly concerned with data collection. WP4 through WP8 different themes are studied and analysed. In WP9 results are disseminated and timely transfer of knowledge is ensured, while the objective of WP10 is to ensure successful delivery of the project through effective coordination.

WP1: Development of new evidence through interaction with key stakeholders
WP2: DEEP DIVE: Development of 25 in-depth cases of SEs in Europe and beyond
WP3: SELUSI 2.0 DATA on 1000 social enterprises in 9 nation states
WP4: The organization of social enterprises in market and society
WP5: The private and public finances of social enterprises
WP6: The innovations of social enterprises
WP7: Social enterprise in context
WP8: Social enterprises and their impacts
WP9: Dissemination and valorization
WP10: Governance and project management

**PROJECT IDENTITY**

<table>
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<tr>
<th><strong>PROJECT NAME</strong></th>
<th>Social Entrepreneurship as a Force for more Inclusive and Innovative Societies (SEFORİS)</th>
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</table>
| **COORDINATOR**  | Koenraad Debackere, KU Leuven  
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Oksigen Lab - Brussels, Belgium  
Stockholm Institute for Transition Economics – SITE – Stockholm, Sweden  
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| **WEBSITE**      | www.seforis.eu |
FURTHER READING


Wolf, M., Mair J. (2016). Adaptive governance in social enterprises: Between compliance and customization. SEFORIS working paper (Deliverable 4.2)