



Mainstreaming Inclusive Innovation and Social Entrepreneurship in Higher Education

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InnoSocial Course in Inclusive Innovation and Social Entrepreneurship

M4. Establishing a social enterprise

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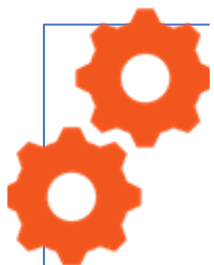
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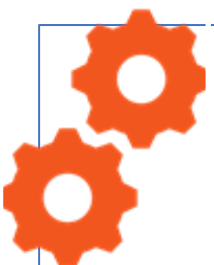
Module structure



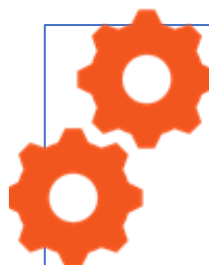
Unit 1.1 How to set up a social enterprise



Unit 1.2 The legal forms of running a business and the legal provisions in this area



Unit 1.3 Management processes in a social enterprise development and implementing a financial strategy.



Unit 1.4 Case studies of setting up and running social enterprises



1. How to set up a social enterprise

Agenda

- EU Regulations
- Definition and Types of Social Enterprises
- Conditions for Establishing Social Enterprises
- Example: Poland
- Turning an Idea into a Business
- Conclusion



Introduction

The Importance of Social Enterprises

- Social enterprises focus on social objectives rather than profit maximization.
- This presentation will cover the steps and regulations involved in starting a social enterprise.
- Social enterprises play a crucial role in creating positive social impact and fostering community development.



EU Regulations

The Social Business Initiative (2011)

- Issued by the European Commission to clarify social business aspects.
- Recognizes the scale of the social entrepreneurship market in Europe.
- Key Statistics:
 - Over 11 million employees in the EU.
 - Represents more than 6% of the EU's population.
 - One in four European enterprises is socially oriented.



Definition of Social Enterprises



No Uniform Definition

- The European Commission identified general criteria for social enterprises:
 - Social or societal objective for the common good drives commercial activity.
 - Profits are primarily reinvested to achieve social objectives.
 - Organizational structure reflects the mission.
- Two Types:
 - Enterprises providing social services or goods to vulnerable groups.
 - Enterprises including excluded social groups in the production process.



Types of Social Enterprises

Variety Across Countries

- Social enterprises can take various legal forms: cooperatives, associations, foundations, non-profit companies.
- Common Characteristics:
 - Surpluses are invested back into the organization.
 - Aim for social and professional integration of members or benefit the local community.
- Differences from traditional enterprises and non-profits:
 - Operate both socially and economically.
 - Allocate income from profit-making activities to statutory social activities.



Conditions for Setting Up Social Enterprises (Example: Poland)

Establishing a Social Enterprise in Poland

- Conditions vary across countries, even within the EU.
- Polish Example:
 - Legal frameworks and support structures for social enterprises.
 - Necessary steps for registration and operation.
- Common Functioning Basis:
 - Operate both socially and for profit.
 - Balance between social objectives and economic viability.

Key Steps in Starting a Social Enterprise

From Idea to Reality

•Potential Market:

- Identify customers willing to buy the product/service.
- Analyze the competition and market gaps.

•Mission:

- Clearly define the social mission.
- Differentiate from less ethical alternatives.
- Include the social purpose in registration documents if required.

•Financial Planning:

- Plan for business expenses and revenue expectations.

•Online Presence:

- Create a website and utilize social media to reach customers.
- Share the story of positive change and impact.



Business Plan and Legal Structure



Creating a Business Plan

- Essential for outlining goals and strategies.
- Verifies the feasibility of the business idea.
- Plans future activities and milestones.

• Choosing the Legal Structure

- Influences remuneration, investment, and responsibility.
- Considerations include:
 - Need for incorporation.
 - Social purpose and charitable status.
 - Income sources (grants, equity, trading).
 - Control and ownership preferences.
 - Tax benefits and bureaucracy management.
 - Flexibility for future changes.



Conclusion

Summary

- Social enterprises are vital for addressing social issues through business models.
- Understanding EU regulations and specific country conditions is crucial.
- Key steps include market analysis, mission definition, financial planning, and legal structure selection.
- Successful social enterprises balance social impact with economic sustainability.
- Further steps involve continuous evaluation and adaptation to ensure long-term success and impact.



2. The legal forms of running a business and the legal provisions in this area

Agenda

- Introduction to Social Enterprises
- Choosing the Right Legal Form
- Global Variations in Legal Frameworks
- Case Study: Legal Regulations in Poland
- Conclusion



Introduction to Legal Forms of Business

•Introduction:

•Definition of social enterprises

- Social enterprises combine business activities with social objectives.
- Not focused solely on profit maximization; prioritize social impact.

•Importance of choosing the right legal form

- Legal form determines governance, liability, and funding options.
- Impact on credibility, stakeholder expectations, and operational flexibility.

•Autonomy in determining legal forms by each country

- Different legal frameworks globally for social enterprises.
- Each country adapts legal structures to support social mission businesses.



Key Considerations in Choosing a Legal Form



- **Raising finance**
 - Legal structure influences access to grants, investments, and loans.
 - Consideration of funding sources: grants, donations, commercial activities.
- **Social ownership**
 - Ensuring community and stakeholder involvement in governance.
 - Types of ownership structures: member-owned, shareholder-owned, collective ownership.
- **Income streams and enterprise activities**
 - Balancing revenue sources: donations, contracts, sales of goods/services.
 - Legal implications of income sources on tax status and reporting requirements.
- **Regulation and reporting**
 - Compliance with legal requirements varies by structure (e.g., annual reports).
 - Impact of regulations on administrative burden, especially for smaller entities.



Importance of Legal Structure

- **Stakeholder requirements**
 - Stakeholders (e.g., investors, donors, beneficiaries) may require specific legal forms.
 - Legal structure reflects commitment to transparency and accountability.
- **Impact on activities planned**
 - Legal form affects operational scope and permissible activities.
 - Alignment of structure with social mission and long-term sustainability goals.
- **Enhancing credibility and protection from personal liability**
 - Legal recognition provides credibility to stakeholders.
 - Limited liability protects individuals from personal financial risks.

Common Legal Structures for Social Enterprises



- **Unincorporated association**

- Simplest form without separate legal personality.
- Often used by community groups and smaller initiatives.

- **Company limited by guarantee**

- Common for non-profits and charities; members guarantee a nominal amount.
- Limits liability to guarantee amount; suitable for public trust.

- **Company limited by shares**

- Ownership through shares; profits distributed to shareholders.
- Allows for external investment but may prioritize profit over social goals.

- **Industrial & provident society**

- Cooperative ownership model; members have equal voting rights.
- Combines economic activity with social goals; democratic control.

- **Community interest company (CIC)**

- Specifically for social enterprises; asset lock and community purpose.
- Ensures profits benefit the community; regulated by CIC regulator.

Factors Influencing Legal Structure Choice



- **Personal liability**

- Importance of separating personal and business liabilities.
- Limited liability structures reduce personal financial risk.

- **Ownership structures**

- Types: member-owned, shareholder-owned, cooperative.
- Impact on governance, decision-making, and profit distribution.

- **Funding, both short and long term**

- Legal form affects ability to secure grants, loans, and investments.
- Consideration of funding sustainability and growth strategies.



Governance in Social Enterprises

- **Role of governance**

- Responsibilities in strategy, legal compliance, and stakeholder management.
- Governance models: board of directors, members' assembly, advisory boards.

- **Management structures**

- Hierarchical vs. participatory management approaches.
- Reflecting mission-driven decision-making and accountability.



Profit Distribution in Social Enterprises

- **Reinvestment of profits**
- Social enterprises prioritize reinvestment for mission sustainability.
- Balancing financial viability with social impact goals.
- **Restrictions on profit distribution**
- Legal structures (e.g., charities, CICs) restrict profit distribution to benefit mission.
- Aligning profit use with social objectives and community benefit.



International Perspectives on Legal Structures

- **Legal structures:**

- **Novel legal structures**

- Examples: CICs in the UK, L3Cs in the US, tailored for social enterprises.
- Legal innovations to support dual mission businesses globally.

- **Variety of legal structures**

- Adaptation to cultural, economic, and regulatory contexts.
- Impact of legal frameworks on social enterprise development.



Categories of Social Enterprises

Overview:

•Trading enterprises

- Worker or employee-owned businesses with economic resilience.
- Varied organizational structures to balance social and economic goals.

•Community organizations

- Membership-driven entities reinvesting profits into community impact.
- Localized solutions addressing specific community needs.

•NGOs and charities

- Non-profit structures supporting social, environmental, or political causes.
- Funded by donations, grants, and revenue from mission-aligned activities.

•Financial institutions

- Cooperative banks, credit unions focusing on member benefits.
- Financial services with community-driven objectives and profit reinvestment.

Legal Regulations in Poland

Legal regulations

- **Overview of social economy entities (PES)**
- Defined under the Social Economy Act in Poland.
- Types: social cooperatives, occupational therapy workshops, non-profit companies.
- **Steps to establish a social cooperative or non-profit company in Poland**
- Idea development, statute creation, official founding meeting, registration process.
- Specific legal requirements and registration with the National Court Register (KRS).



Conclusion

Summary

- **Key Insights**
- **Understanding Legal Forms:** Social enterprises operate under diverse legal structures globally, each influencing governance, liability, and funding strategies differently.
- **Alignment with Mission:** Choosing the right legal form is critical for maintaining alignment with the social mission and values of the enterprise.
- **Regulatory Considerations:** Regulatory frameworks vary significantly between countries, impacting operational flexibility and compliance requirements.



3. Management processes in a social enterprise development and implementing a financial strategy.

Agenda

- Introduction to Financial Management in Social Enterprises
- Importance of Financial Sustainability
- Understanding Fixed Assets and Variable Costs
- Methods for Costs allocation
- Break-Even Analysis and Calculating Break-Even point
- Funding Options for Social Enterprises
- Support Mechanisms in the EU for Social Enterprises

- Conclusion



Introduction to Financial Management in Social Enterprises

- **Definition of Social Enterprises**
- Organizations with a social mission and profit-making activities
- **Objectives of Financial Management**
- Ensuring sustainability while achieving social impact
- **Challenges in Financial Management**
- Balancing financial viability with social goals



Importance of Financial Sustainability in Social Enterprises

- **Definition of Financial Sustainability**
- Ability to generate revenue to cover costs and fulfill social mission
- **Significance for Social Enterprises**
- Ensuring long-term viability and impact
- **Strategies for Achieving Financial Sustainability**
- Diversifying income sources, cost management



Understanding Fixed Assets and variable costs

- **Definition of Fixed Assets**

- Assets used in business operations for more than one year

- **Examples of Fixed Assets**

- Machinery, vehicles, buildings, office equipment

- **Role in Business Operations**

- Supporting daily operations and growth initiatives

- **Definition and Examples of Variable Costs**

- Costs that fluctuate with production or service volume
- Examples: raw materials, temporary labor, marketing

- **Impact on Financial Planning**

- Managing variable costs to optimize profitability

- **Case Studies**

- How variable costs affect financial performance in social enterprises

Differentiating Fixed and Variable Costs in Social Enterprises

- **Key Characteristics of Fixed Costs**

- Remain constant regardless of production volume
- Examples: rent, salaries of permanent employees

- **Characteristics of Variable Costs**

- Fluctuate based on business activity levels
- Examples: direct materials, utilities, overtime wages

- **Financial Management Strategies**

- Allocating resources based on cost dynamics



Methods for Cost Allocation

- **Overview of Cost Allocation Methods**
- Accounting methods (direct vs. indirect costs)
- Engineering methods (activity-based costing)
- Statistical methods (regression analysis)
- **Application in Social Enterprises**
- Challenges in accurately allocating costs
- Best practices for effective cost management



Break-Even Analysis and Calculating Break-Even point

- **Definition and Purpose of Break-Even Analysis**
 - Determining the point where total revenue equals total costs
 - Importance in decision-making and financial planning
- **Practical Applications**
 - Using break-even analysis to set pricing strategies
 - Examples from social enterprise contexts
- **Quantitative Break-Even Point Formula**
- Example calculation and interpretation
- **Value-Based Break-Even Point Formula**
- Comparative analysis and financial implications



Social Enterprise Budgeting and Cash Flow Forecasting

- **Budget Management**
 - Similar to traditional companies but includes social value measurement.
- **Social Impact**
 - Monetary value of social contributions (e.g., training, donations).
- **Planning**
 - Importance of knowing social impact costs for budgeting.
 - Estimation of cash flows to ensure sustainability.
- **Cash Flow-Definition and Importance**
- **Cash Flow Forecast:** Predicting cash inflows and outflows.
- **Importance:** Ensures the enterprise can meet its obligations and remain solvent.
- **Components**
 - **Opening Balance:** Starting amount at the beginning of the period.
 - **Closing Balance:** Remaining amount at the end of the period.
- **Implementation**
 - Regular updating and comparison of projected vs. actual figures.

Funding Options for Social Enterprises

Types of Funding

- **Lending Banks:** Traditional loans.
- **Community Lenders:** Loans focused on social returns.
- **Incubators and Accelerators:** Support for startup and growth phases.
- **Crowdfunding:** Raising funds from the public.
- **Self-Funding:** Using personal resources to start the enterprise.
- **Subsidies and Grants:** Government and EU support.

Strategic Importance

- Choosing the right funding mix to support long-term goals.



Support Mechanisms in the EU for Social Enterprises

Examples of Support

- **Subsidies for Employment:** Contributions for hiring disadvantaged individuals.
- **Interest Subsidies:** Reducing loan costs.
- **Public Procurement Preferences:** Reserved contracts for social enterprises.
- **Tax Exemptions:** For reinvested profits in social goals.

Benefits

- Enhances sustainability and growth.
- Provides financial stability and support.



Conclusions

Importance of integrating financial sustainability with social impact

- Strategies for optimizing cost structure and revenue generation
- Continuous monitoring and adaptation in financial strategies
- Ensuring long-term success and social value creation



4. Case studies

1. Case Study- Panato



2. Case Study- Todim



3. Case Study- Alivio



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Key Symbols



Definition/ theoretical background



Teaching/learning activities



Tips



Video



**Additional resources/
further reading**



Case studies/good practices



Thank you!



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