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**Silver Lining: Opportunities for Social
Enterprise in an Economic Recession**

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“A crisis is a terrible thing to waste.” - Paul Romer, economist

Over the past two years, news of the economic recession has pervaded mainstream media. Rising unemployment, decreased consumer spending, low GDP growth rates, and other macroeconomic indicators have combined to paint an extremely bleak picture, especially in developed economies that have suffered from the brunt of the financial crisis and its ensuing effects. Much of the public has lost faith in the market economy as investors blame CEOs’ corporate greed for inciting the financial collapse. At the same time, nonprofit organizations and charities are feeling the strain as donations and government grants decline.

Amid the pessimism of for-profit corporations and nonprofit organizations emerges a silver lining: the existence of social enterprises whose dual mission of making profits and contributing to social goals places them in a strong position to not only weather the economic downturn, but possibly benefit from the growth opportunities that recession offers. Paradoxically, the negative effects of recession can create indirect benefits for social enterprise from three stakeholder perspectives: that of investors, local communities, and social entrepreneurs themselves. Investors’ distrust of the private sector, as caused by economic downturn, has led to a general shift in investment preferences from for-profit corporations to social enterprise. Recession has also hurt many local communities, whose increased demand for social services presents growth opportunities for social enterprise. Lastly, recession has spurred greater interest in, and a newfound focus of, social entrepreneurship.

These combined effects suggest that economic downturn creates opportunities for social enterprises to develop, even in a context where traditional for-profit businesses and nonprofit organizations are prone to vulnerability.

2 Social Enterprise: “Best of Both Worlds”

A social enterprise is a profit-generating organization whose primary objective is to realize community improvements for target beneficiaries. To do so, a social enterprise generally reinvests its surpluses in activities that promote its social goals (Mair & Noboa, 2003; Milczarczyk, 2008). One example of such an organization is Urban Works, a Philadelphia-based contract cleaning company that employs economically disadvantaged workers. A minority-owned business, its workforce in 2001 was composed of 70% employees recovering from drug and alcohol problems and 5% formerly homeless people. Urban Works provides basic computer training for its employees with the hope that they will eventually apply their skills to higher-paying jobs (Knowledge@Wharton, 2003; Radish, 2001).

Similar to a for-profit company, Urban Works generates financially sustainable profits and thus does not rely on donations or grants that many nonprofits receive. However, its hiring policies and corporate culture distinguish it from traditional businesses. By helping employees develop skills that are outside the company’s core business of cleaning, Urban Works purposely seeks to promote rapid turnover of its own workforce, a socially-oriented goal that most private corporations would find nonsensical.

Indeed, social enterprise’s application of business strategy to deliver societal improvements has been met with some criticism. Economic theorists have argued that charitable groups already exist to solve social problems that business cannot address; as a result, for-profit and nonprofit organizations operate in separate, non-overlapping realms. Such a view further contends that the corporate mission of maximizing shareholder value is incompatible with philanthropic, and often non-financial, objectives (Eikenberry, 2004).

This paper argues that the “in-betweenness” of social enterprise as an institution that draws from both for-profit and nonprofit sectors is the very basis of its potential to weather economic downturn. Drawing from empirical findings over the past two years, the following research presents the argument that developed economies should invest in social enterprise not *in spite* of a recession, but *because* of it.

3 Investor Psychology during Economic Downturn

The 2007 financial crisis and ensuing economic recession has generated much public distrust towards private, profit-hungry corporations. The effects of economic downturn on investor psychology can translate to growth opportunities for social enterprise.

In developed markets worldwide, investors are feeling the sting of recession in the form of falling stock prices and negative investment returns. The cause of the crisis has largely been attributed to the poor leadership and decision-making of corporate leaders in the financial sector, many of whom actively traded innovative, packaged assets while passing risk to unassuming parties. Understandably, this has led many investors to question the value of obscure financial products (World Economic Forum, 2009). But the pessimism has spread beyond financial investments. In the United States, 88% of Americans felt “angry” or “bothered” by the news surrounding insurance company AIG’s bonus payments of over \$165 million to employees (Dutton, 2009). According to a recent survey conducted in the United Kingdom, 71% of the public has “lost their ‘trust’ in the private sector” (MacDonald, 2009).

This drastic change in investor psychology suggests that some investors are now choosing to invest in social enterprises and other socially responsible organizations as an alternative to private investments (Plumb, 2009). In the current period of economic gloom, social enterprise offers a haven for investors who are overwhelmingly dissatisfied with the traditional private sector. Social enterprises, which tend to be more transparent with their business operations, can benefit if they can successfully market their financial benefits and social impact to potential investors (Nicholls, 2007).

The growth in investments of two U.K. organizations provides evidence of opportunities that are in part created by the recession. The Co-operative Bank, a Manchester-based commercial bank that follows strict ethical investing policies, reported a 70% increase in profits (to £85.6m) and a 40% increase in deposits by personal customers for the year ending January 2009 (Kingsmill, 2009). The bank differentiates itself from “competitors whose primary goal is to maximize profit for their shareholders,” instead emphasizing the objectives of financial sustainability and social benefit for investors and local communities. It credits the increase in new business to the financial crisis, noting that more customers trust the co-operative brand in a time of economic uncertainty (Co-operative News, 2009a).

While the correlation between economic downturn and social investment is not necessarily indicative of a causal relationship, the unexpected results of impressive financial growth amid recession suggest that the poor economy may be indirectly benefiting social enterprise by changing investors’ attitudes.

4 Increased Demand for Social Enterprises’ Services

In a poor economy there tends to be greater demand for social services, especially among disadvantaged populations who are more vulnerable to layoffs and government cuts in social benefits. Furthermore, economic downturn amplifies the weaknesses of for-profit corporations and nonprofit organizations, thereby creating need gaps that social enterprise can fill.

The current recession has forced conventional for-profit corporations to drastically cut costs. As a result many private companies have scaled down their commitments to socially responsible initiatives, as evidenced by firms' withdrawal from affordable housing projects, inner-city healthcare provision, social care services, and related areas where margins are tight (MacDonald, 2009).

The nonprofit sector, which has traditionally addressed these local needs, has taken a hit during the recession as well. A November 2008 survey by PricewaterCoopers indicates that most charity organizations believe that income will decrease in the next year as donations, grants, and other revenue sources dwindle (Oakley-Smith, 2008). Additionally, past experiences have shown that social services organizations are often bombarded during economic downturn with calls from people who have trouble paying their bills, require but cannot afford home repairs, or need general financial help. Many nonprofit organizations, facing financial troubles of their own, are unable to aid their constituents during tough economic times (Wills, 2002).

As a hybrid of for-profit and nonprofit entities, social enterprises are in a unique position to meet this increased demand in social services. Recession offers social enterprise the opportunity to expand its role in solving many of the problems that have been worsened by the financial crisis – namely, the needs for job creation, economic development, and financial stability in underprivileged communities (Co-operative News, 2009b).

Empirical evidence suggests that social enterprises are indeed pursuing these opportunities to develop their businesses. A U.K. survey administered in October-November 2008 found that more respondents viewed the economic upheaval as an opportunity (35.6%) than as a threat (22.0%). More convincingly, 70% of social enterprises expected the social and/or environmental need that their firms addressed to increase, with 41.4% of firms expecting these needs to increase a lot in a foreseeable future (Social Enterprise Coalition, 2008).

5 Opportunity for Social Entrepreneurship

While investors and local communities look to social enterprise in a regressing economy, what can be said of the social entrepreneurs themselves? The above analysis has demonstrated how recession unveils growth opportunities for existing social enterprises, but it turns out that these opportunities extend to aspiring entrepreneurs as well. Economic downturn can generate conditions that are favorable to entrepreneurship, and social entrepreneurship is no exception.

As layoffs in the corporate sector pile up, increasing numbers of skilled professionals are entering the social sector. In part as a result of the recession and tight job market, many of these workers are accepting jobs with social enterprises that pay less but offer the intrinsic reward of being able to make positive contributions to the community. Additionally, some professionals opt for self-employment by starting their own social enterprise (Clark, 2009). The influx of talent from the private sector bodes well for the field of social enterprise because the professionals who are well-trained in for-profit business strategy can introduce more efficient methods of operations to socially-minded firms.

In the U.K., economic downturn has led to an increase in applications for the creation of community interest companies (CICs), a form of social enterprise (Hampson, 2009). CICs are mission-driven organizations that agree to regulatory oversight to ensure that the social purpose is being met. In return, the government gives CICs a stamp of approval that reassures stakeholders of the organization's goals (CIC Regulator). This stakeholder confidence is especially important at a time of recession, when the general public is largely suspicious of firms' for-profit motives.

Globally, recession is often correlated with entrepreneurship. As the Wall Street Journal noted in December 2008, entrepreneurship is expected to boom in 2009 as unemployed workers try to start their own businesses (Spors, 2008). Predictably, social entrepreneurship will see a rise as well. Not only will social enterprises invite greater trust among investors, the capital required to start them is often lower than what is needed for conventional businesses. Despite the difficult access to credit in the current recession, establishing a social enterprise appears more promising than starting an ordinary for-profit business (World Economic Forum, 2009).

Beyond entrepreneurial skill and business strategy, the long-term success of social enterprise hinges on the willpower of government to enact policies that encourage the growth of innovative social ventures. As seen from aforementioned examples, the U.K. government is a strong advocate of social enterprise: in addition to launching the Office of the Third Sector to support social initiatives, it has also identified social enterprise as a pillar for social services reform and a facilitator of national recovery from the financial crisis (Nicholls, 2007). More recently, the United States has made similar investments in small-scale, high-impact organizations. As of mid-2009, the Obama administration has planned to establish the Social Innovation Fund to provide growth capital to results-oriented programs that effectively improve local communities in areas ranging from education to healthcare to economic opportunity (The White House, 2009). By incorporating social enterprise development into short-term economic recovery plans and long-term social growth strategies, these governments have successfully signaled to the public its dedication to finding innovative solutions to social problems through the application of effective business practices.

6 Conclusion

In the public eye, economic recession causes much financial and social distress to organizations and individuals. While this is invariably true, recession also creates opportunities for social enterprise. As revealed by stakeholder attitudes of investors, local communities, and entrepreneurs, economic downturn presents a unique chance for social enterprises to expand and reach greater populations. By recognizing this silver lining and formulating business strategy and public policy around social mission, social enterprises and governments can use the current economic situation to promote sustainable development of social welfare initiatives.

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