Parallel Paths—A Comparison of CSR Firms and Social Enterprises

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Corporate social responsibility (CSR) is the incorporation of environmental and social responsibilities into the business activity, in line with the economic responsibility that firms have traditionally focused on. The social entrepreneur is a type of entrepreneur who seeks to resolve a social or environmental problem through the application of a business model, motivated by the aim of helping others and pursuing positive social change. A key aspect of social entrepreneurship (SE) is therefore the creation of social wealth. Both concepts pursue positive social change, but unlike social entrepreneurs, the objective of a responsible firm is not to solve social issues created by others, rather to understand and limit the social and environmental impacts of their profit-generating activities. In recent decades, research on CSR has grown considerably, whereas SE has only begun to receive serious academic attention quite recently. Crucially, few studies have tried to link and differentiate the two areas. Due to the increasing interest in both concepts nowadays, the need to clarify the similarities and differences between them is greater than ever, and is the principal aim of this work.

Keywords: social entrepreneurship (SE), corporate social responsibility (CSR), social value, wealth, comparison

Corporate social responsibility (CSR) is the incorporation of environmental and social responsibilities into the business activity, and aims to balance them with the economic responsibility to run a firm effectively and profitably. The social entrepreneur is a type of entrepreneur who identifies an opportunity to tackle a social or environmental problem, characterized by innovative capabilities, a strong sense of responsibility, and commitment to the project. Both concepts include a philosophy of pursuing positive social change, with the objective of a responsible firm being to understand and limit the social and environmental impacts of their profit-generating activities, while the objective of social entrepreneurship (SE) is to reduce or solve social issues through the application of business models.

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Both theoretical and empirical research in the field of CSR has grown considerably in recent decades, as has its implementation in organizations of different sizes and types. Interest in SE, on the other hand, is somewhat newer, growing strongly in recent years (Huybrechts & Nicholls, 2012; Santos, 2012). While an extensive literature now exists for both fields, the number of studies analyzing the two concepts in relation to each other is limited (Cornelius, Todres, Janjuha-Jivraj, Woods, & Wallace, 2008; Crisan & Borza, 2012; Hiller, 2013).

Therefore, the principal aim of this work is to compare and contrast the two concepts, thereby providing some clarity in understanding each one. Due to the growth of specific legal formats that recognize the particular characteristics of the social entrepreneur, the need to clarify these similarities and differences is greater than ever. The paper is structured as follows: In the initial sections, the concepts of CSR and SE are analyzed. This is followed by a comparison between both concepts as well as comments on their potential to achieve positive social change. It finishes with conclusions and recommendations.

**Birth and Evolution of CSR**

A wide range of definitions have been suggested for CSR (Bowen, 1953; Davis, 1973), without anyone being accepted as the standard. Yet, the concept is becoming increasingly clear, and involves considering and assuming responsibility for the social and environmental impacts of a company’s actions. A sincere approach needs to consider the adoption of a corporate social performance (CSP) model which emphasizes the importance of not only identifying, evaluating, and balancing a company’s responsibilities, but also the level of responsiveness as they implement new policies and new operational processes, plus a consideration of the outcomes in terms of an organizations’ economic, social, and environment impacts (Wartick & Cochran, 1985; Wood, 1991). Without such a holistic vision, companies may simply analyze and define changing responsibilities without taking appropriate action and assessing its impact, or may undertake a range of actions without considering the underlying motivations.

CSR has grown in importance (both academically and at corporate level) in the past three decades, principally due to a rapidly changing business environment. Examples of this include the explosion in global production chains, increased pressure on natural resources, the rise of the informed and increasingly active concerned consumer, the growth of activist groups, and changing regulations. CSR plays two key roles in all this:

1. It permits a better understand of these shifting social conditions, the impact they can have on the company, and the necessary conceptual and/or operational changes that should be made;
2. It provides a roadmap whereby companies taking CSR seriously that can identify an increasingly wide range of competitive advantages.

A large number of initiatives and programs exist through which companies understand and manage these responsibilities, amongst the most well-known and widely-used being the Global Compact and AA1000 (AccountAbility 1000) to orientate companies toward a more responsible management stance and better understanding of different stakeholder concerns; the ISO 14000 (International Standardization Organization 14000), SA8000 (Social Accountability 8000), and OHSAS 18001 (Occupational Health and Safety Assessment Series 18001) for environmental management, responsible labor conditions, and workplace health.

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1 CSR is not limited to companies, with many types of organizations potentially creating negative social and environmental impacts as they carry out their operations. However, for the purpose of this paper, we will focus on for-profit companies.
and safety, respectively; and the Global Reporting Framework for identifying, measuring, and reporting the consequent outcomes.

Since the only difference that really exists between a responsible and irresponsible company is that one considers the social and environmental impacts of its profit-generating activities, and the other does not, no separate legal formats exist between the two. However, certain regulatory obligations are being to appear which may lead in the future to differentiating legal formats. For example, the European Union (EU)’s Committee of Permanent Representatives has approved a new directive that obliges most European companies with over 500 employees to produce a statement on their environmental, social, and employee-related matters, including a description of the policies and outcomes and a risk analysis. Where a company does not provide such information, it will have to explain why (comply or explain). However, relatively few companies produce reports on their social and environmental impacts, and those do often cherry-pick the information they present, meaning that understanding and interpreting the overall impact of the organization’s activities is still difficult (Milne, Ball, & Gray, 2008; Fonseca, 2010; Levy, Brown, & De Jong, 2010).

**Birth and Evolution of SE**

In the late 90s, Dees (1998) was amongst the first to academically define SE, proposing a complex definition based on the role of the social entrepreneur as an agent of social change, and highlighting three main aspects: innovation, commitment, and a strong sense of responsibility for the project. From then on, different authors have offered a variety of definitions based on different aspects of the concept. For Mair and Marti (2006), the social entrepreneur is the creator of an innovative business model, able to offer goods and services oriented toward developing effective and efficient solutions to social and environmental problems. Light (2006) shows that SE is a popular but confusing term, which is used to describe different concepts, proposing that it is any individual, group, network, organization, or alliance, seeking a sustainable and large-scale change, developed through innovative ideas on how to deal with social problems. Meanwhile, Zahra, Gedajlovic, Neubaum, and Shulman (2009) in a seminal paper, reviewing 20 definitions, consider that SE develops activities to discover and exploit opportunities in order to create social value, by starting up new ventures or managing existing organizations in a complete new way of doing business.

Therefore, a key driver of SE is the motivation, vision, and capabilities of the social entrepreneur, who may seek to implement an idea and attain objective through a business format known as the social enterprise. In order to develop a general framework to identify social enterprises in Europe, the European Research Network (EMES) considers social enterprises to be those for which the social objective of common interest is the reason for the commercial activity, which often results in a high level of social innovation, whose profits are primarily reinvested in conducting this social objective, and whose modes of organization or ownership are based on democratic or participatory principals or social justice concepts (European Commission, 2011).

Although the definition dates from 2011, the social enterprise concept began to gain adherents in Europe in the early 90s. In particular, early support was provided in Italy in 1991, where social cooperatives (a new form of the cooperative) were created with the aims of ensuring the general interest of the community, the promotion of people, and the social integration of citizens. Following the Italian example, between 1998 and

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2 EMES is a network composed of university research centers and individual researchers, since 1996. Nowadays is constructed by 15 institutional members, located in 11 different European countries, although since 2013, EMES has decided to open its membership to researchers from around the world.
2001, other European countries such as Portugal, Greece, Spain, and France, also began to establish new legal cooperative forms to attend social needs (Defourny & Nyssens, 2008; Galera & Borzaga, 2009).

Around the same time, in 1997, Belgium created the possibility for companies to label themselves as a “company with a social purpose”. This was not a new legal form, rather a descriptive tag which could be acquired not only by cooperatives, but also by any other types of profit-seeking business, such as limited liability or public limited companies, as long as their principal objectives were social (Galera & Borzaga, 2009). Along the same line, and mainly because of the growth of cooperatives, Italy introduced an important change in the legal framework for social enterprises in 2006, where a more open model was adopted. Thus, any private organization including trading companies could acquire the qualification of social company, as long as their principal objectives were social.

However, the most advanced legislatively European country in such social initiatives is the United Kingdom (Nicholls, 2009). The British Government, in its efforts to support the creation and development of social enterprises, has tried to improve the fiscal and regulatory environment. Hence, in the year 2005, a new legal form for social enterprises was created. The Community Interest Company (CIC) is a limited company combining the flexibility of the limited liability company with a social purpose. CIC is a type of limited company designed specifically for those wishing to operate for the benefit of the community, instead of personal profit. With this format, the social entrepreneur can attract investment by issuing shares, but most of the profits are to be reinvested in the organization or in the community (Cooney, 2012).

Meanwhile, in the United States, due to an increased need to respond to the peculiarities of social entrepreneurs, and considering that development was stunted because of the limitations of an outdated legal system, the low-profit limited liability company (L3C) was created in 2008. As a variation of the limited liability company (LLC), it is considered as a hybrid structure between profit and nonprofit organizations, which can generate profits as long as their principal objectives were social (Battilana, Lee, Walker, & Dorsey, 2012; Cooney, 2012). In 2011, looking to develop a better and clearer legal framework for social entrepreneurs, the Benefit Corporation was born, which provides a broad legal protection for both entrepreneurs and investors, thereby increasing funding opportunities for this type of business as long as they comply with certain criteria regarding social responsibility, transparency, and the provision of a public benefit (Priede, López-Cózar, & Rodríguez, 2014).

### Comparison Between the Two Concepts

To underline the specific characteristics of each concept, this section contains a comparative analysis between socially responsible enterprises (SREs) with strong and developed responsible management practices, and social enterprises (SEs) which prioritize the social impact of their actions, and relegate profit-making to a secondary role. Firstly, the similarities between the two types of organizations are identified and can be categorized under four broad headings.

#### Perusal of Social Change

Both SREs and SEs are concepts based on responding strongly to social change, or what is sometimes labelled social advocacy (London, 2010). The SRE does so by understanding that traditional business practices need to change for both normative and profit-motive reasons. An increasingly important driver of SREs is the growth of business’s impact on society and the environment, and an understanding that as this impact grows, so
do corresponding responsibilities to tackle these impacts, and also manage potential risks created as they seek
to generate profit. SEs do so by filling a social function that may otherwise be left unattended. They are often
reacting to changes in the social construct, either providing services that may have once been provided by the
community or family, or responding to new social needs that until now have not been dealt with effectively by
government or other organizations.

**Use of Business Models**

Both operate using common management processes, aim to have revenue streams by producing goods or
services, and should be profitable. Providing employment and participating in supplier and customer
relationships, efficient SEs will use performance indicators such as employee evaluations or profitability
indices in the same way that a SRE does. In other words, both must compete in the marketplace.

**Being Responsible**

Both must embed a sense of responsibility into their organizational DNA. While this may sound somewhat
obvious, what is meant is that to become a successful SRE requires a holistic organization-wide approach to
CSR (Balmer, Fukukawa, & Gray, 2007). This is something that is incorporated into the very existence of the
SE (Hiller, 2013). Despite this difference in form, both concepts share a similar concern regarding this sense of
responsibility. If not correctly understood and implemented, there is a risk of incoherency for the SRE,
becoming more responsible in some operational areas and less so in others. Many companies implant CSR in
an uneven manner which may create friction and cynicism (an example would be reducing emissions in
logistics operations, while at the same time increasing production in countries where breaches of workers’
rights are common). In the case of SEs, the fact that they are taking a responsible stance toward a particular
issue (their reason for setting up initially), they may feel instinctively that they act responsibly in everything
they do without actually analyzing whether or not that is the case (Cornelius et al., 2008).

**Worldview**

Both concepts are by nature voluntary, and the decision to enter into either is a choice freely taken
(although it can be argued that there are certain moral and ethical motivations underlying both options). Both
choose to go beyond the legal and societal requirements of their environment, and decision of their own free
will to listen to, and consider the views of different stakeholders, incorporating ideas of social impact into their
organizational value system.

Despite the above, a number of important differences between the two concepts also exist, requiring
elaboration. In fact, the differences between the two concepts may be somewhat greater than the similarities,
and are grouped under a variety of headings.

**Concept Development**

Recent decades have been busy ones for those involved in the field of corporate social responsibility. A
large number of implementation tools (e.g., SA8000, AA1000, ISO26000, and OHSAS 18001) have been
adopted, and communication of outcomes as well as the format of that communication has become common
through the use of the GRI (Global Reporting Initiative) (Levy et al., 2010). There is an active level of civil
interest, demonstrated by a growing number of dedicated publishing firms, both government-led and
private-sector observer organizations involved in analysis and promotion, and a wide range of academic and
professional programs. SE is a newer field, and for the moment lacks some of the research knowledge and
practical application experience, although this is beginning to change (Noruzi, Westover, & Rahimi, 2010; Hiller, 2013).

**Prioritization and Assessment of Objectives**

While both SREs and SEs need to balance the books, their principal aims differ. Friedman’s point of view that a business only has obligations to its investors, suppliers, employees, and customers, and its only responsibility to create wealth for shareholders/investors has never really gone away (Friedman, 2007). The vast majority of SREs still prioritize shareholder wealth, although balancing it against other considerations. SEs start from a different point of view, the wealth they are creating need not be economic, and while profitability is a helpful guide to planning and decision-making, it should not be prioritized. Its principal aim is to create social wealth.

**Social Impact**

Due to their nature, each concept has a different type of impact on society. CSR, as mentioned above, is a result of changing social conditions that requires companies to consider the negative social and environmental impacts they create as part of their business activities. It requires a SRE to reduce and hopefully eliminate the harmful emissions that the company itself produces, as they create negative externalities for society as a whole. It starts from a position of indebtedness to society (every industrial process produces waste by-products), and aims to reach a neutral balance between its social and shareholder—wealth generating activities. On the other hand, an SE is not cleaning up its own mess. It starts from a neutral point, and each impact should have an accumulative positive impact on society, aiming to resolve problems created by others (see Figure 1). Of course, this is true as long as it does not ignore its other impacts (an SE set up to offer microcredits to the homeless that ignores other responsibilities such as materials use or financial transparency is probably creating more negative impacts that they aim to resolve).

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Figure 1. SREs and SEs level of social impact.

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3The original article was published in the *New York Times* in 1971. It was republished in 2007.
Costs

For a company to adopt CSR concepts in a holistic and serious manner (that is, become a SRE), above all, it requires a change in mentality. It may also require changes in organizational structure, production and logistic processes, measurement systems, and communication methods. In other words, it implies an initial outlay in time, energy, and economic resources. These will be recouped with time through improved competitive position, better reputation, reduced risk exposure, and a range of other positive outcomes. A SE does not face the same problem, as a sense of social mission is part of its birthright, and therefore a costly transition away from short-term profit orientation is not necessary. Some years ago, SEs may have faced some lost opportunity costs, for example, due to the greater difficulties of raising finance, but with the emergence of legal formats such as the CIC in the UK, or the Benefit Corporation in the USA, which allows for financing through share issues, such inconveniences are gradually disappearing.

Communication

SREs increasingly use non-financial reporting (NFR) as a key vehicle for stakeholder dialogue, though they explain their responsible management philosophy and inform on actions taken. The most widely used tool is the GRI, which provides a template for producing reports. SEs do not necessarily need to communicate in the same way. As long as the social purpose of their existence is clear to actual and potential clients, and they are clearly positioned in the marketplace, much of their message regarding their social mission will be automatically transmitted whenever they communicate on any aspect of their company activities.

Measuring Success

Many stakeholders use the aforementioned non-financial information produced by a SRE to analyze the accumulative effect of their actions, and answer a fundamental question: How responsible are they being? While containing a number of strengths, the NFR system also has weaknesses, with no enough work being done systematically, analyzing either the information presented or its cumulative effect (Brown, De Jong, & Levy, 2009). However, the growth of NFR does allow possibilities for better measuring SREs output in the future. A SRE may also use well-known reputational indices and rankings such as the Dow Jones Sustainability Index (DJSI) or the KLD Global Sustainability Index (GSI) to complement their economic indicators, cash flow or revenue streams, returns on investment, or share value (to name but a few). However, the key indicators of success remain financial, and SRE losing money could not be considered as successful. CSR means balancing different responsibilities (and incorporating new ones), but the economic responsibility to pay its debts and reward investors does not, nor should it, disappear. A SE measures success in the social impact it creates, yet due to the relative newness of the field and the difficulty of measuring the social impact generated by each distinct project, as yet a limited number of indicators exist to analyze this, one example being the guidelines for social return on investment (Lingane & Olsen, 2004).

Conclusions

The current economic crisis has played its part in driving recent interest in both SREs and SEs. This has led to the development of a wide range of managerial tools for understanding and implementing the former, and a boom in the creation of the latter. More specifically, in Europe (at both national and supra-national level), there is a growing focus on methods to promote and support both concepts. Increasing numbers of governments have published national CSR plans (for example, Germany in 2010, Italy in 2013, and Spain due in 2014) and
the European Commission has promoted a wide range of initiatives as well as publishing the first Green Paper on the topic in 2001. While many social enterprises began life by adopting the structure of cooperatives, later a number of countries began creating specific legal formats with the UK, leading the way with the CIC. The interesting case of the Benefit Corporation in the United States also merits close study as a potential model for others to follow.

As a response to the growing interest in the two areas, and a corresponding level of confusion, this paper aimed to clarify the concepts by outlining in some detail, the principal similarities, and differences between them. As can be seen throughout this analysis, the two concepts are related, yet their underlying nature, reason to exist, and measurement of success are significantly different. Fundamentally, one is the application of new considerations (responsibilities) to existing business models within an existing profit-making paradigm, whereas the other consists of social entrepreneurs taking those business models and applying them to unresolved social problems, partly by redefining that same paradigm from shareholder wealth creation to social wealth creation.

In the analysis, we have identified important similarities between the two concepts that have been categorized under four main ideas. Both concepts are based on the perusal of social change or advocacy, in both cases, it is necessary to use a business model based on the market economy; and both concepts share a similar concern regarding this sense of responsibility. Finally, both concepts are voluntary and inclusive by nature.

We have identified a larger number of differences that are organized under six main ideas. In relation to the development of each concept, recent decades have been busy ones for those involved in the field of CSR while SE is a somewhat newer field. There is also an important difference in relation to the prioritization and assessment of objectives, the SREs’ aiming to create shareholder wealth within a new business social relationship, while the SE aims to create social wealth for large numbers of stakeholders. Another important difference is based on the different type of impact each one may have. Realistically, the most that can be hoped for from SREs is that they reduce and eliminate the negative footprint that they have created. SEs start from a neutral point, and contain the potential for each impact to have a positive social footprint. Additionally, they aim to resolve problems created by others. In relation to the costs, becoming a SRE implies an initial outlay in time, energy, and economic resources, while the SE includes the sense of social mission as part of its birthright and so avoids this. In communication terms, a SRE needs to explain their responsible management philosophy, actions taken, and the outcomes produced, whereas SEs should be able to transmit an embedded social message to the marketplace. Finally, regarding the measure of success, while SREs can use well-known indices and rankings, the financial data are paramount. For measurement of success in SEs, a limited number of indicators exist, and much research remains to be done.

Thus, it can be said that while CSR has demonstrated some usefulness for resolving problems created by the marketplace, it seems unlikely to provide a sufficient catalyst for fundamentally resolving the deep social and environmental fissures that have emerged in recent decades. SEs generally and specifically, the blend of a competitive business focus and social wealth creation offered by the social enterprise model, offers greater potential for progress toward a more equitable and fair world. For this reason, social enterprises are beginning to catch on and attracting increasing attention from institutional, professional, business, and educational sectors. It is important to emphasize the key role of public administrations as well as international bodies, which must play in supporting continued forward momentum. A number of tools are available to them, such as legal, financial, and fiscal frameworks, priority in accessing government contracts, and increased funding for research.
and training programs. Some of these tools are already in place for SREs (for example, in Spain, the 2011 Sustainable Economy Law promised to prioritize bids for public contracts from companies, meeting the objective of having 2% of their workforce drawn from disadvantaged sections of society). Such support is more important which given the less than satisfactory record of regulatory authorities generally in dealing with a pre-crisis financial system clearly in need of greater regulatory control, growing inequality within and between different states, and an ever more serious global resource depletion problem.

Under this premise, and taking into account that easy fixes are unlikely, both SREs and SEs concepts have much to offer, without forgetting the limitations each one might face. Both have the potential, in their own way, to reduce the worse aspects of human economic activity while supporting the positive ones, with the underlying aim being the promotion of human development and social progress both today and tomorrow.

References


