Evaluating the labour productivity of social enterprises in comparison to SMEs in Australia

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Abstract

Purpose – The social economy – including not-for-profits, cooperatives, mutual organisations and social enterprises – is playing a stronger role than ever in the delivery of public policy. Yet, these organisations are often anecdotally viewed as relatively inefficient providers. The purpose of this paper is to compare the profitability and labour productivity of social enterprises in the State of Victoria in Australia with that of small- and medium-sized business enterprises (SMEs) in the same state. This paper found that, although social enterprises generally generated smaller profits and, therefore, could be less profitable, their relative level of labour productivity (value added and income to labour employed) was comparable or higher than that of SMEs. This paper responds to the need for comparative insights about social enterprise performance and considers the implications of these findings for new public governance.

Design/methodology/approach – The social economy – including not-for-profits, cooperatives, mutual organisations and social enterprises – is playing a stronger role than ever in the delivery of public policy. Yet these organisations are often anecdotally viewed as relatively inefficient providers.

Findings – This paper found that, although social enterprises generally generated smaller profits and, therefore, could be less profitable, their relative level of labour productivity (value added and income to labour employed) was comparable or higher than that of SMEs. This paper responds to the need for comparative insights about social enterprise performance and considers the implications of these findings for new public governance.

Originality/value – This is the first work that has been done of this sort that has looked specifically at Australia circumstances.

Keywords SMEs, Social economy, Profitability, Social enterprises

Paper type Research paper

Introduction

As part of the social economy composed of not-for-profits, cooperatives, mutual and hybrid businesses, social enterprises in many jurisdictions have historically played an important role in delivering services to communities, fostering economic participation and contributing to social innovation. Social enterprises – or organisations that trade primarily to achieve a community benefit purpose (Barraket et al., 2010; Ridley-Duff and Bull, 2015) – often deliver goods and services in response to community needs (Lyons, 2001).

In recent years, popular and policy interest in social enterprises and their impact has grown. This reflects inflections of new public governance (Osborne, 2006), which both place...
an increasing emphasis on the role of non-government actors in the design and delivery of public policy (Bovaird, 2007; Carmel and Harlock, 2008; Haugh and Kitson, 2007) and combine logics of hierarchies, markets and networks in new assemblages to deliver public services in contexts of reduced tax bases and increasing complexity of social needs in a global society (Keast and Mandell, 2013; Koppenjan, 2012).

One manifestation of policy and scholarly interest in social enterprise has been the recent estimation in jurisdictions such as Australia, Canada, Japan, the UK and the European Union of the economic contribution of social enterprises (Clifford et al., 2013; Elson and Hall, 2012; Hart and Houghton, 2007; Karaphillis, 2014; Manetti, 2014; Statistical Office of the Republic of Serbia/European Union, 2014). One concern, however, that has attracted less empirical study is that of the relative productivity and efficiency performance of social enterprises, compared to traditional commercial enterprises or much larger fully government-owned agencies.

Evaluating the relative performance of social enterprises is important both internally, for the management of the social enterprises themselves, and externally, for the communities they serve, and for funders and supporters such as philanthropy, government and impact investors. Productivity and efficiency are important to these enterprises, as it is essential for them if they are to sustain their activities. An unproductive social enterprise, for instance, will be unable to substantially carry out its primary functions and, therefore, achieve its core social purpose.

There has been some criticism that social enterprises are unproductive/inefficient compared to traditional, commercial businesses, branding them with the: “tag of charity, not very efficient business” (Barraket et al., 2016, p. 48). The Australian Government’s Productivity Commission when reporting on the not-for-profit sector more generally, stated that: “the conception of productivity is alien to many NFPs, which are concerned about delivering on their community purpose” (Productivity Commission, 2010). Despite these criticisms, there is little empirical evidence of that social enterprises are relative unproductive compared to small- and medium-sized enterprises (SMEs).

In the context of new public governance, the productivity of social enterprises is arguably relevant to their performance as governance actors. While relatively significant attention has been given to the economic and social worth that social enterprises create, there is a lack of research assessing their productivity and efficiency. Past work that looks at the efficiency and productivity of social enterprises includes work by (Jang, 2010; Lee and Lee, 2016; Lee and Seo, 2017; Natesan and Marathe, 2017). The results of this work are mixed and do not provide a significant body of evidence that social enterprises are or are not unproductive in nature.

Generally social enterprises defend their position by making the case that they are trying to meet their social purpose, with outputs that are difficult to quantify, and therefore, conventional notions of economic efficiency or productivity do not capture their true position, by ignoring their social impact. Regardless of the validity of the various claims, social enterprises are often regarded as being relatively unproductive without much evidence.

In the Australian case, existing research indicates that social enterprises are often mature organisations; however, a growing number of new organisations have emerged over the past five years (Barraket et al., 2010; Barraket et al., 2016). Despite this maturity, a lack of routine data collection partly driven by the limited visibility of a single “social enterprise field” or sector has created a poor understanding of the nature of social enterprises and their relative productivity and efficiency. This paper, therefore, analyses the performance of a
group of social enterprises in Australia from a productivity perspective, by making comparisons between the relative labour productivity of social enterprises and SMEs. The use of labour productivity in this paper follows the methods advocated by the Organisation for Economic Cooperation and Development (2001, pp. 13-14). In undertaking this work, it intended to determine there is any evidence that social enterprises are relatively unproductive compared to SMEs, as some critics of social enterprises claim.

The paper is structured as follows. In the first section, the role of social enterprise and new public governance is briefly canvassed. Definitions of social enterprises labour productivity and efficiency are then provided and the available evidence reviewed. This is followed by an outline of the research approach used in this paper. The findings of the study are then presented and discussed and, in the final section, some conclusions about the contributions of the paper and implications for future research and practice are made.

The social economy and new public governance
New public governance acknowledges that different modes of governance – from the hierarchies of traditional bureaucracies (Weber, 1968) to efficiency-based market logics of new public management (Hood, 1995), to relational governance through networks (Considine, 2005; Kooiman, 2003; Rhodes, 1997) co-exist and have residual influence in practices of contemporary governing. This can generate contradictory practices underpinned by competing institutional logics (Friedland and Alford, 1991), the navigation of which requires new skills and policy instruments. Reflecting these demands, recent years have seen public investments in social economy organisations that serve state interests in a number of jurisdictions (for example, Canada, the UK and Malaysia), as well as a proliferation of cross-sector and multi-stakeholder policy instruments – such as social impact bonds, social procurement, collective impact approaches and citizen co-design of services – in which social enterprises are active agents.

In relation to the wider social economy, critical writers have identified that the impulses of new public governance include rendering governable the diverse terrain of civil society (Carmel and Harlock, 2008). In relation to social enterprise in particular, Dart’s highly cited polemic (Dart, 2004) suggests that social enterprises are symbolically legitimate (Suchman, 1995) in a predominately neoliberal era because they enact market behaviours in the service of social good. Drawing on empirical evidence, others have found that social entrepreneurs purposefully exploit this symbolic legitimacy to gain access to new resources (Desa, 2012) through acts of “tactical mimicry” (Dey and Teasdale, 2016) in pursuit of their missions. In relation to new public governance, we would argue that social enterprises are conceptually interesting entities to examine because they bridge business and civil society functions, drawing on different institutional logics (Battilana and Lee, 2014; Greenwood et al., 2011; Pache and Santos, 2013) and manifesting these in new assemblages or hybrid forms. In practical terms, they are important entities to study because of the increasing role they are playing in policy arrangements and service delivery.

Concerns that the symbolic legitimacy of social enterprises have overridden their practical legitimacy – in the sense of being demonstrably more effective or efficient at achieving social goals than other governance actors – have led a number of social enterprise scholars from both management and policy studies to observe that there is a significant lack of comparative analysis of the relative worth of social enterprises, in terms of their costs and impacts (see, for example Doherty et al., 2014; Haugh, 2012; Short et al., 2009). This paper seeks to respond to this identified gap by generating insights about the relative labour productivity of social enterprises.
productivity of Victorian social enterprises compared with their mainstream SME counterparts.

While interest in the function of social enterprises as new public governance actors is growing, we note that explicit policy support for social enterprise remains piecemeal in most Australian jurisdictions (Lyons and Passey, 2006; Mason and Barraket, 2015). The state of Victoria is our research setting because it has historically been a leader in investing in community and social enterprise development (Barraket, 2008) and is the only Australian jurisdiction at the time of data collection and writing that has a current social enterprise strategy. Before turning to our research design and findings, we canvass below the available evidence of the productivity and efficiency of social enterprises.

Social enterprises, labour productivity and efficiency

There is no universally accepted definition of social enterprise, although a number of Australian jurisdictions and specific policy programs have adopted the Finding Australia’s Social Enterprise Sector (FASES) definition, which defines social enterprises as follows. Social enterprises:

- are led by an economic, social, cultural or environmental mission consistent with a public or community benefit;
- derive a substantial portion of their income from trade; and
- reinvest the majority of their profit/surplus in the fulfilment of their mission (Source: Barraket et al., 2010).

More simply put, most researchers agree that social enterprises are organisations that combine a social purpose with the pursuit of financial viability (Lee and Seo, 2017) involving trading activity. For the purposes of this study, we operationalised the concept of social enterprise using the FASES definition, as this definition has been adopted in the Victorian Government’s Social Enterprise Strategy, which supported the empirical work on which this paper is based. Drawing on this definition, social enterprises in Australia are known to be diverse – particularly when it comes to their legal structure, size, age, industry sector, social mission, target beneficiaries and sources of income (Barraket et al., 2010).

In terms of the labour productivity of social enterprises, there are a number of issues that make determination problematic. The labour productivity of social enterprises is, however, important, as an efficient use of resources can help to increase their effectiveness at alleviating social problems.

Productivity and efficiency are two of the most important and enduring concepts in economics, yet they are also multifaceted and equivocal. Efficiency is the concept of how productively resources are being used to meet an organisation’s goals. Indeed, not only is it important in the study of economics, it is also a term in popular use. Productivity, at its most basic, is as a measure of:

[...]the relationship between output and one or more of the associated inputs used in the production process (National Academy of Sciences, 1979, p. 1).

Productivity, therefore, is closely connected to the creation of wealth on the one hand and the use and availability of resources on the other (Tangen, 2002, 2005). Although this seems a clear notion, measuring productivity involves a degree of complexity as:

[...]there is neither a unique purpose for, nor a single measure of, productivity (Organization for Economic Cooperation and Development, 2001, p. 11).
Productivity analysis, therefore, can involve a variety of approaches that look at the levels of or rates of change in the ratio between outputs and inputs in different orders of aggregation (of firms, industries or countries). Productivity, therefore, is a relative concept:

[...which can not be said to increase or decrease unless a comparison is made, either of variations from competitors or other standards at a certain point in time, or of changes over time (Tangen, 2002, p. 18).]

Productivity is an important indicator in economics as it shows how efficiently wealth can be created from the limited resources available. A productivity improvement can mean that more output is produced, given a level of inputs; or alternatively that the same level of output is produced with fewer inputs. Indeed, it has been argued that productivity represents one of the most important basic variables governing economic production (Singh et al., 2000; Tangen, 2005). Grossman (1993, p. 3), for example, discusses growth in productivity as being one of the key competitive advantages of an enterprise or nation:

Companies need to realize that gains in productivity are one of their major weapons to achieve cost and quality advantages over their competition.

Over time, growth of productivity is a crucial source of growth in living standards. Productivity growth means that more economic value is created in production, which in turn means more income is available to be distributed. Organisations moving towards the best available technology, the development of new technologies and ceasing operations of plant with poor productivity performance can improve productivity levels. In addition, organisations can change their organisational structures, management systems and work practices to improve productivity.

In the case of traditional commercial businesses profit margins, or rates of return on capital and equity, are generally used to evaluate the performance of a company. However, some social enterprises operate in markets in which prices and costs are not determined under competitive conditions. This is in part because many social enterprises exist to respond to an unmet social need, rather than to exploit a market opportunity for personal wealth creation. In these cases, profits either do not exist or, at least partially, are a reflection of market power imperfections. Therefore, using profit-derived indicators of performance can be problematic.

Irrespective of their primary purpose – to create community benefit rather than personal wealth – social enterprises are still under considerable market and other pressures to demonstrate efficiency. While not all social enterprises have direct commercial relationships with governments, those that do act to deliver services on behalf of the state, are particularly affected by efficiency demands that arise from price-setting because of monopsony power (that is, power of the single purchaser) of governments as upstream purchasers of social services (Dalton, 2014). Given the difference in strategic intent of social enterprise (community benefit) and traditional commercial business (private wealth creation), simply comparing profitability, does not provide a valid evaluation of productivity.

Productivity measures are based on comparisons between actual inputs and outputs. There are a range of different productivity measures, the choice to use which one depending upon the purpose of the productivity measurement and, in some cases, the availability of data (Organisation for Economic Cooperation and Development, 2011, p. 12). Productivity measurements often use a range of inputs and these approaches are referred to as total factor (or multi-factor) productivity indicators. Often, however, productivity measurements use the single input of labour. This means that the major input excluded are capital inputs. In this paper, a labour productivity approach is used as both social enterprises and SMEs...
typically have relatively low capital requirements. Indeed, in many cases, the capital inputs of social enterprises and SMEs are trivial or are difficult to obtain data on. This makes the use of labour productivity methods fairly valid, and comparisons between them are reasonable.

Comparisons between the labour productivity of social enterprises and larger, more capital-intensive enterprises would need to take into consideration capital expenses. In addition, government policy when it comes to social enterprises is often concerned with labour participation and inclusion which makes labour productivity indicators more relevant.

In addition, with social enterprises (and with other types of organisations), it is often difficult to clarify, define and compare their outputs given that they may be non-financial and include such things as the promotion of social inclusion and greater income equality. Social enterprises have, however, been criticised as being unproductive on purely financial grounds, without a great deal of evidence to support this. Testing whether this proposition is valid should be the first step.

Although labour productivity measures are better indicators than profitability of the relative performance of social enterprises, these measures do still have some problems in that the indicators of these organisations' outputs can, at times, be unclear (especially if some of the outputs have no quantifiable worth). That said the data obtained in this case includes measures of the Valued Added of the social enterprises which is the most common form of output indication used. The approach used, therefore, can be shown in equation form (Equation (1)):

\[
LP = \frac{\text{Quantity index of value added}}{\text{Quantity index of labour input}}
\]

The Organisation for Economic Cooperation and Development has described this approach as being: “the single most frequently computed productivity statistic” (Organization for Economic Cooperation and Development, 2001, p. 12). The advantage of this approach is that it is relatively easy to measure and to understand. Also, labour productivity is a key determinant to the performance of organisations, especially labour intensive ones. To some degree, it can capture some of the changes from other inputs as improvements in technology and capital use will lead to labour productivity improvements. The disadvantage of using it is that firm level productivity can be brought about by better use of capital (or other non-labour inputs), which are not captured by labour productivity (Organisation for Economic Cooperation and Development, 2001, p. 15).

Even given the limitations of using labour productivity, this type of analysis can be used to provide some indication of the relative performance of these organisations. One would not want to rely entirely on this single measure, but could include it a part of a wider range of measures of performance. This can be particularly useful to inform policy-makers to understand, through a comparative analysis, whether social enterprises are in fact more or less productive or efficient with resources than comparable SMEs. For example, in the State of Victoria, Australia, under the Social Enterprise Strategy, there is significant public policy interest in understanding the labour productivity of social enterprises relative to SMEs to gauge whether a hybrid business approach can yield greater employment outcomes.

Furthermore, there is some confusion over the degree to which social enterprises have pressure exerted on them to meet their maximum possible levels of labour productivity. As many social enterprises are not-for-profit entities, they are generally regarded as facing “soft
budget constraints”. Soft budget constraints exist if there is weakened pressure to provide returns to owners (Kornai, 1979, 1986; Maskin, 1996).

Many social enterprises have a mandate to reinvest any profits they make into meeting their social purpose. Furthermore: “Social enterprises externalize benefits and internalize costs more than other economic actors making them inherently less profitable than their for-profit counterparts” (VanSandt et al., 2009, p. 421). In addition, there is also: “a natural limit to growth both due to the necessity of detailed knowledge of the community being served and the difficulty involved in monitoring labor” (VanSandt et al., 2009, p. 421). This means that social enterprises tend to be limited in size (Barraket et al., 2010; Barraket et al., 2016; Castellas et al., 2017), and therefore, in terms of their relative labour productivity performance, they are more analogous to SMEs than larger scale, traditional commercial businesses. Finally, it should be noted that the not-for-profit status of many social enterprises encourages them to balance their revenue and expenditure to meet actual or perceived compliance obligations related to their charitable and/or not-for-profit status.

To explore organisational performance, and taking into account the aforementioned limited size of the large majority of social enterprises, this study calculates the labour productivity of social enterprises and compares it to that of SMEs. In doing this comparison, we are able to determine whether social enterprises have lower levels of operating surpluses (profits), compared to SMEs more generally. In addition, and more importantly, the study is able to determine if social enterprises are, on average, less productive that SMEs.

Research design
Setting
In evaluating the relative labour productivity of social enterprises compared to that of SMEs, the authors took data from a survey conducted as part of the Map for Impact: the Victorian Social Enterprise Mapping Project 2017 (Castellas et al., 2017) and compared it to data derived from the Australian Bureau of Statistics for SMEs in Victoria during the period of the survey (2015/2016).

The project report (Castellas et al., 2017) found that the total population of Victorian social enterprises was estimated to be at least 3,500 or 1.6 per cent of the state’s SME population and growing[1]. There is significant diversity across the population of the estimated 3,500 Victorian social enterprises in terms of: location; age; industry; mission; target beneficiary; trade activity; and legal form. It found that social enterprises operate from a number of business models, life stages, regions and strategies to create positive change in their operating contexts. Social enterprises in Victoria operate across all industries (ABS, 2013), however, are also strongly concentrated in a few key industries. In 2015/2016, around 29 per cent of Victorian social enterprises were operating in Cultural and Recreational Services, 20 per cent in Retail Trades and 15 per cent in Health and Social Assistance.

The survey produced 360 valid social enterprise responses (or 11 per cent) of the identified population of 3,500 Victorian social enterprises. The sample represented the estimated population of social enterprises in Victoria with 95 per cent level of confidence and 5 per cent confidence interval. Data were analysed using descriptive and inferential statistical testing and economic modeling.

Economic and employment information was reported for the 2015/2016 Australian financial year. Descriptive data on the surveyed social enterprises are presented in Tables I and II. Table I provides data on the industry dispersion of the surveyed social enterprises, and Table II provides data on the employment, income, expenses, profits and value added of the sample. The employment figures include both number of people employed and number
of full-time equivalent jobs. The operating expenses for the surveyed social enterprises provided are included both with and without an implied cost of volunteers. The implied cost was calculated by multiplying the full-time equivalent of the number of volunteers (376.45) of the surveyed social enterprises by the figure estimated by the Australian Bureau of Statistics as the average implied cost of volunteers in Australia ($61,562 per annum) (total of $23.175mn) [Australian Bureau of Statistics (ABS), 2015b].

As a point of comparison, data were taken from the Australian Bureau of Statistic’s survey of Australian Industry (Australian Bureau of Statistics, 2017a). These data are presented in Tables III and IV. Data were collected on: employment; income; expenses; profit and value added. This was done at the industry level for the main areas in which social enterprises in Victoria operate (i.e. retail, education and training, health and social assistance, arts and recreation). Table III provides data on the total industries and Table IV provides data for SMEs only.
Findings

Characteristics of Victorian social enterprises

In terms of their structure, most Victorian social enterprises operate as independent legal entities. Larger, parent organisations operate between 1 and 125 social enterprises, with a mean of 1.49 enterprises per parent. At the time of this study, there was one clear survey outlier, operating 125 branch locations across Victoria. It is also worth noting that many large social enterprises, such as Bendigo Bank (community bank branches) and Common Equity Housing Ltd have multiple branch locations, operating over 100 locations each. Salvos Stores, the opportunity shops run by the Salvation Army, for example, operate in 120 locations across Victoria. Goodstart Early Learning provides childcare in over 170 locations across Victoria, and YMCA operates almost 100 recreational facilities across Victoria. Like organisations in the mainstream economy, the majority of Victorian social enterprises are micro-, small- and medium-sized, meaning they typically employ between 1 and 200 people with the majority employing less than 20 people.

Victoria’s social enterprises are significant contributors to the Victorian economy, creating jobs for over 60,000 people and volunteer opportunities for over 42,000 people. The majority of trade (sales of products and services) takes place within Victoria, however, nearly one-third of Victorian social enterprises trade internationally, illustrating that they also play a role in the Victorian export economy. In aggregate, Victorian social enterprises contribute over $5.2bn in gross output to the Victorian economy and $3.5bn or 1 per cent of Value Added to the Gross State Product. While this appears to be a relatively small proportion, it should be noted that social enterprises are typically small enterprises operating in distinct industries that are focused on creating social in addition to economic outcomes.

In terms of employment, Victorian social enterprises create jobs for more than 60,000 individuals, representing 1.8 per cent of the state’s workforce. This equates to

<table>
<thead>
<tr>
<th></th>
<th>Retail trade</th>
<th>Education and training (private)</th>
<th>Health and social assistance (private)</th>
<th>Arts and recreation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed (FTE)</td>
<td>822,000</td>
<td>291,000</td>
<td>760,000</td>
<td>209,000</td>
<td>8,329,000</td>
</tr>
<tr>
<td>Total Income $million</td>
<td>409,849</td>
<td>42,307</td>
<td>125,010</td>
<td>34,392</td>
<td>3,144,511</td>
</tr>
<tr>
<td>Total Expenses $million</td>
<td>393,335</td>
<td>37,586</td>
<td>101,165</td>
<td>30,458</td>
<td>2,818,905</td>
</tr>
<tr>
<td>Operating profit $million</td>
<td>17,529</td>
<td>4,733</td>
<td>23,936</td>
<td>3,955</td>
<td>325,195</td>
</tr>
<tr>
<td>Value Added $million</td>
<td>75,500</td>
<td>27,988</td>
<td>79,455</td>
<td>12,635</td>
<td>1,083,865</td>
</tr>
</tbody>
</table>

Source: Australian bureau of statistics Australian industry: 2015-16, cat. No. 8155.0 2017

The labour productivity of social enterprises
approximately 35,000 full-time equivalent jobs. Perhaps reflecting their commitment to employment creation, Victorian social enterprises are labour intensive, with the proportion of their labour force equating to approximately twice the proportion of Gross State Product they produce. In addition, a large proportion (over 30 per cent) of social enterprise workers are from marginalised social groups that face particular challenges in gaining employment in the open labour market (e.g. people with disability or people who were previously long-term unemployed)[6].

Of the sampled organisations, 63 per cent of organisational revenue was derived from trading, including 55 per cent from the sales of products and services and 8 per cent from competitive government contracts. This is followed by government grants (13 per cent) and philanthropic grants and bequests (8 per cent). The largest expense of the sampled organisations was labour costs, with salaries and wages, representing 47 per cent of expenses. Operating expenditure (excluding salaries and wages) represented another third of expenses (35 per cent).

**Profits and labour productivity**

The relative size of the profits and labour productivity of the social enterprises are provided in Table V, along with data for the SMEs and industry overall figures. Table V provides indicators of the relative profitability of the various enterprises (the first two columns) and the relative labour productivity (third and fourth columns). Profits are depicted in terms of profit margins and income/expenses. The profit margin is the difference between operating income and expenses as a percentage of income. Labour productivity is determined by the level of value added and income divided by the full-time equivalent of people employed. For example, for the sample of social enterprises, the labour productivity was calculated by taking the value added ($397.271mn) and income ($620.793mn) divided by FTE employees (2,795.5), which resulted in $145,547 and $227,438 (Table V). For the comparative SME population, the labour productivity was calculated by value added ($614,947mn) and income ($1,768,539mn) divided by FTE employees (7,220,000) (Table IV) which resulted in $109,196 and $314,038 (Table V). In addition to these figures for social enterprises with directly

<table>
<thead>
<tr>
<th></th>
<th>Profit margin (%)</th>
<th>Income/Expenses ratio</th>
<th>Income/Employed people (FTE) $</th>
<th>Labour productivity Value added/Employed people (FTE) $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surveyed firms</td>
<td>10.5</td>
<td>1.12</td>
<td>227,438</td>
<td>145,547</td>
</tr>
<tr>
<td>Surveyed firms</td>
<td>6.8</td>
<td>1.07</td>
<td>199,872</td>
<td>120,445</td>
</tr>
<tr>
<td>Surveyed firm</td>
<td>5.4</td>
<td>1.03</td>
<td>477,547</td>
<td>90,478</td>
</tr>
<tr>
<td>Surveyed firm</td>
<td>13.2</td>
<td>1.14</td>
<td>146,345</td>
<td>89,815</td>
</tr>
<tr>
<td>SME-Health and social assistance (private)</td>
<td>27.9</td>
<td>1.38</td>
<td>190,403</td>
<td>119,310</td>
</tr>
<tr>
<td>SME-Arts and recreation</td>
<td>12.8</td>
<td>1.15</td>
<td>203,485</td>
<td>73,360</td>
</tr>
<tr>
<td>SME-Total</td>
<td>12.3</td>
<td>1.13</td>
<td>314,038</td>
<td>109,196</td>
</tr>
<tr>
<td>Overall retail Trade</td>
<td>4.3</td>
<td>1.04</td>
<td>498,404</td>
<td>91,813</td>
</tr>
<tr>
<td>Overall education and training (private)</td>
<td>11.2</td>
<td>1.13</td>
<td>145,445</td>
<td>96,146</td>
</tr>
<tr>
<td>Overall health and social assistance (private)</td>
<td>19.1</td>
<td>1.24</td>
<td>145,335</td>
<td>104,494</td>
</tr>
<tr>
<td>Overall arts and recreation</td>
<td>11.5</td>
<td>1.13</td>
<td>164,406</td>
<td>94,831</td>
</tr>
<tr>
<td>Overall Total</td>
<td>10.3</td>
<td>1.12</td>
<td>258,126</td>
<td>130,134</td>
</tr>
</tbody>
</table>

**Table V.** Comparative data of social enterprises, other SMEs and overall industry 2015-2016

**Sources:** Australian Bureau of Statistics Australian industry: 2015-16, cat. No. 8155.0 2017; Castellas et al., 2017.
employed people, Table V also has estimates for employed people plus volunteers (full-time equivalent) using the implied cost derived from the Australian Bureau of Statistics of $23.175mn (see Research Design).

As can be seen from the figures provided in Table V, the social enterprises in the sample do have lower profit margins (and income/expenses ratios) than the comparative SME population. For instance, the profit margin for the surveyed firms was 10.5 per cent (6.8 per cent when the implicit cost of volunteers is used) compared to 12.3 per cent for the total of SMEs. Of the various SME sectors, however, the retail sector, which has especially low profit margins (because of its very high levels of price competition) is the exception (5.4 per cent). Recalling the definition of social enterprise, lower profitability is expected given the objective to create community benefit through the revenue they generate rather than maximise personal profits for shareholders.

The relative labour productivity of the social enterprises in the sample is comparable to or higher than their SME equivalents. Value added per full time equivalent staff (even including the implied expense of the volunteers) is comparable to or higher than that of like sectors. The valued added/per employed (FTE) figured for the surveyed firms is $145,547 ($120,445 if the implicit cost of volunteers is included) compared to $109,196 for the total SMEs. The figured for surveyed social enterprises ($145,547) and for social enterprises with volunteers ($120,445) is higher than each SME sector (Retail $90,478; Education and training $89,815; Health and social assistance 119,310; and Arts and recreation $73,360). The main category that the social enterprise sample performs poorly against is the overall total of all industry groups across the Victorian economy (i.e. both SMEs and larger businesses combined), at $130,134, greater than the valued added/employed including volunteers, which is probably because this category includes a lot of large scale, capital-intensive enterprises.

Discussion
Overall, there are two main findings that can be derived from this study:

1. The first is that social enterprises have operating surpluses (profits) that are lower than those of SMEs. This is in line with most conventional wisdom about the operation of not-for-profit enterprises which seek to match as closely as possible income and expenses. Given that the majority of social enterprises in this sample were not-for-profits, this may explain this particular finding. Additionally, social enterprises exist to convert revenue into social/community benefit rather than to optimise the profit from revenue. Therefore, to optimise community benefit, they maximise (as far as is viable) their expenses through either: employing as many people as they can (demonstrated in the full research project report see Castellas et al., 2017) or spending on service delivery/beneficiary support.

2. The second finding is that, despite these low operating surpluses (profits), social enterprises are at least as productive as SMEs in terms of labour productivity. The likely reasons for their levels of comparable or higher labour productivity may reside in the practical pressures exerted by social enterprises’ considerable resource constraints and the normative pressures to establish legitimacy in the eyes of communities, customers and investors, which has been widely canvassed in the literature on social enterprise and other hybrid business forms (Battilana and Lee, 2014; Desa, 2012; Dey and Teasdale, 2016). Social enterprises have to make do with limited resources and to compete for limited funding while often responding to market failures, which means that most of them have strong incentives to use labour productively.
Related to these two findings, we suggest that the economic performance of social enterprises should be assessed based on their labour productivity, rather than their ability to generate profits, in conjunction with other performance evaluation approaches. For example, the approach adopted in this paper could be used alongside indicators of output, such as income and value added generated as well as both qualitative and quantitative evaluations of social impact. This would better capture their effectiveness in operation and use of scarce resources and is arguably a better indicator than profits or surpluses of the financial performance and economic contributions alone.

In relation to new public governance, our findings suggest that, in economic terms, social enterprises are relatively productive governance actors. While we do not disagree with earlier observations that social enterprises command symbolic legitimacy in a neoliberal era because they are market-facing entities (Dart, 2004; Dey and Teasdale, 2016), our findings suggest that they should also command practical legitimacy on economic terms because they are relatively productive in terms of their use of labour.

Critical scholars have observed that the neoliberal impulse of contemporary governance regimes leads to normalising third sector and hybrid service providers as market actors devoid of their social and political contexts (Carmel and Harlock, 2008). While the focus of this research – confined as it is to economic and financial performance analysis – risks such normalisation, our analysis demonstrates that the social context (and purpose) of social enterprises is in part integrated into their business practices. This needs to be taken into account when both empirically assessing and conceptualising the labour productivity of these organisations and points to the need to better conceptualise the practices and performance of hybrid governance actors that internalise the assemblage of diverse institutional logics. To date, the literature on network and new public governance arrangements has focused primarily on hybrid arrangements between organisations and sectors; the case of social enterprise suggests that, as such arrangements become integrated into new generation organisational practice, greater attention will need to be paid to the way in which hybridity manifests within organisations to effect public wealth creation.

Conclusion
In this paper, we have made three contributions. First, we have empirically demonstrated the relative productiveness of social enterprises (in terms of labour productivity), when compared to other business types. In so doing, we have responded to the call in the social enterprise literature (Doherty et al., 2014; Haugh, 2012; Short et al., 2009) for empirically grounded comparative insights, which allow us to move beyond evangelical accounts of social entrepreneurship to better understand the performance of hybrid business models.

Second, our findings indicate that, in relative terms, social enterprises are productive business entities in terms of their use of labour. This contests the assumption that social enterprises are poor second cousins to private for-profit business counterparts in terms of their business practices (Barraket et al., 2016) and that not-for-profit entities are unconcerned with labour productivity issues (Productivity Commission, 2010). In the context of new public governance, this finding suggests that social enterprises can be productive governance actors, although we note that financial performance is only one component of effectiveness when considering the creation of public or community wealth. The findings presented in this paper suggest that social enterprises keep a relatively “clean kitchen”, but not whether they produce a “great meal” in terms of equal or better social outcomes from their interventions compared with other organisations and programs.

Third, we have modelled in this paper an approach to assessing the financial and economic performance of social enterprises that is both operationalisable and consistent
with the purposes and operating realities of these types of organisations. We thus suggest a practical strategy for judging the financial performance and economic contribution of social enterprises which overcomes limitations of assessments of labour productivity that presume maximisation of private shareholder value as a universal starting point. This will be of utility to funders and investors in social enterprise, as well as for benchmarking performance between social enterprises themselves.

While these contributions add to the body of knowledge of social enterprise and its effects, further research could advance policy knowledge and practice by extending this analysis to comparisons of relevant social enterprise performance against social policy programs and welfare interventions. In addition, more detailed analysis of social enterprises would also tell us more about what makes social enterprises relatively productive and what impediments there might be to their performance. Further study might also tell us more about the impact of external pressures, such as fluctuations in business cycles, might have on the productiveness of social enterprises.

This would ensure that the role of social enterprise in the realisation of policy objectives extended beyond the symbolic legitimacy (Dart, 2004; Suchman, 1995) of market-facing solutions that are consistent with the norms of contemporary governance, to the establishment of practical legitimacy (Suchman, 1995) that illuminates the contexts in which social enterprises may actually be ideal providers of public and community wealth.

Notes
1. At July 2016, there were 569,999 registered business in Victoria. Of these, 218,113 could be classified as SMEs, that is, employed 1-200 people. Australian Bureau of Statistics, 2016, Selected characteristics of Australian business, 2015-2016. cat no. 8167.0
2. Gross output is defined as a measure of total economic productivity in the production of goods and service and is calculated based on gross expenditure (operating and capital expenditure). Source: Australian Bureau of Statistics, 2015a, Australian system of national accounts: Concepts, Sources and Methods, cat. No. 5216.0, Belconnen ACT.
3. Contribution to the Gross State Product (GSP) is defined as the creation of Value Added. This includes labour costs plus surpluses (profits) and excludes purchases from other sectors. Source: Australian Bureau of Statistics, 2015a, Australian System of National Accounts: Concepts, Sources and Methods, cat. number 5216.0, Belconnen ACT.
4. Employment statistics and economic impact do not include traineeships or volunteer figures.
6. Responding to Social Disadvantage that outlines 18 per cent of Victorian social enterprise employees are people with disability, 6 per cent are long-term unemployed people, 5 per cent are culturally and linguistically diverse people and 2 per cent are indigenous Australians.

References


Karaphillis, G. (2014), The Economic Impact of Social Enterprises in New Brunswick: Summary Report Prepared for the Co-operative Enterprise Council of New Brunswick, Cape Breton University, Community Economic Development Institute, Sydney, NSW.


**Further reading**


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