

Social Enterprise in British Columbia: Challenges and Opportunities for Success

by

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Abstract

Social enterprises result in several benefits for marginalized individuals, the non-profit sector, and communities. This study investigates how the Government of British Columbia can support the growth and development of social enterprises in the province through interviews with 23 social enterprise practitioners, intermediaries, academics, and policymakers. The interviews reveal that social enterprises experience a variety of challenges related to business operations, accessing financing, and legal ambiguity surrounding social enterprises. A range of policy options to address these challenges was formulated and evaluated against a set of criteria. This study recommends the provincial government extend the Venture Capital Program tax credit to investments in social enterprises, provide business support to social enterprises through Small Business BC, and introduce a Community Contribution Company corporate structure.

Keywords: social enterprise – British Columbia; social entrepreneurship; social innovation; non-profit organizations

Dedication

Douglas H. Clark – my family's original public policy expert.

My parents – for supporting and encouraging me throughout my academic career.

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List of Acronyms

BCA	Business Corporations Act
BCSVP	BC Social Venture Partners
CCC	Community Contribution Company
CEDIF	Community Economic Development Investment Funds
CIC	Community Interest Company
CRA	Canada Revenue Agency
CSC	Community Sector Council of Newfoundland and Labrador
EBC	Eligible Business Corporation
ENP	Enterprising Non-Profits
VCC	Venture Capital Corporation
VCP	Venture Capital Program

Executive Summary

The non-profit sector is facing a growing sustainability challenge; demand for its services has increased, while government funding and donations have decreased. In response to this challenge, the non-profit sector is exploring social enterprise as an innovative approach to tackling the social issues that affect communities. A social enterprise is a business with both social and financial objectives. The social enterprise business model offers several benefits to individuals, the non-profit sector, and Canadian society. Despite the many benefits associated with social enterprises, there is not enough government support for the growth and development of social enterprises in British Columbia (BC).

This study aims to uncover the challenges experienced by social enterprises in BC and identify the opportunities for the provincial government to facilitate these businesses in overcoming these challenges. In particular, the study seeks to formulate and assess policies that will address one of three objectives: 1) improve the level of business supports available to social enterprise practitioners; 2) increase social enterprises' ability to access financing; and 3) clarify the legal framework surrounding social enterprise.

This study uses a qualitative methodology, involving semi-structured interviews with 23 participants. Purposeful and convenience sampling was used to recruit the participants, who were organized into three groups: 1) social enterprise practitioners; 2) intermediaries and academics; and 3) policymakers. A thematic analysis of the interview responses was conducted to identify key findings.

Key Findings

The analysis of the interviews produced three overarching themes relating to the challenges experienced by social enterprises.

1. Business Operations

- Both practitioners and intermediaries recognized the lack of business expertise among social enterprise practitioners as a challenge, although

several of the social enterprises interviewed had employed a manager with a business background.

- Practitioners struggled to reconcile the business and social objectives of the social enterprise.
- There were varying opinions over the difficulty measuring the success of social enterprises. Demonstrating Value was considered to be a helpful tool to assist social enterprises in measuring the financial and social impacts of their business; however, some practitioners found the process to be challenging.
- Several social enterprise practitioners recognized that success was closely linked to their ability to provide a competitive product or service in the marketplace.

2. Financing

- Social enterprises typically accessed financing from their parent organization or grant providers, rather than traditional financial institutions. This was attributed to the lack of equity among social enterprises, as well as a culture within the non-profit sector that is familiar with funding their work through grants.
- Loans are a relatively untapped source of financing for social enterprises.
- Intermediaries and policymakers highlighted the need for social enterprises to be able to access the right type of financing at the appropriate time in their development.

3. Legal Framework

- Many of the practitioners interviewed operated the social enterprise as a non-profit or charity, and were not concerned with the legal ambiguity surrounding social enterprises.
- Other practitioners recognized that their social enterprise may grow to the point where it is necessary to transition to a for-profit structure, with one social enterprise already completing this process.

Recommendations

Five policy options to address the challenges faced by social enterprises were formulated and evaluated against a set of four criteria, including cost, effectiveness, political feasibility, and administrative ease. Based on the evaluation, this study recommended that the provincial government adopt a combination of three initiatives to support social enterprises.

1. *Expand the Venture Capital Program (VCP) Tax Credit*

To increase the ability of social enterprises to access financing, it is recommended that the provincial government extend the 30% VCP tax credit to investments in social enterprises. This option requires three administrative changes to the VCP: 1) designating non-profits as potential investees; 2) permitting social enterprise to be a qualifying activity of an eligible small business/EBC; and 3) allowing debt investments to qualify for the tax credit in the case of non-profit social enterprises, rather than equity investments.

2. *Provide Services Through Small Business BC*

To improve the business supports available to social enterprise practitioners, it is recommended that the government provide services through Small Business BC. Small Business BC is an existing resource centre with a mandate to provide business advice to small businesses in the province. This option requires Small Business BC to develop an understanding of social enterprise internally, engage with the social enterprise sector, and develop new resources tailored to social enterprises' needs.

3. *Create Community Contribution Companies (CCCs)*

To clarify the legal framework surrounding social enterprises in BC, the government should amend the *Business Corporations Act* to include Community Contribution Companies (CCCs). A CCC is a for-profit corporate structure based on the Community Interest Company (CIC) that has been introduced in the United Kingdom. The CCC model would include a cap on dividends, an asset lock, and enhanced accountability measures (e.g. public financial statements).

Conclusion

These three recommended options provide a well-rounded strategy, each targeting one of the policy objectives that contribute to supporting the growth and development of social enterprises in the province. By addressing three of the major challenges in tandem, the government will facilitate social enterprises in creating benefits for individuals, the non-profit sector, and communities.

1. Introduction

Non-profit and charitable organizations are significant contributors to the well-being of Canadians. They promote causes, conduct research, deliver services, and are an important partner for both the government and private sector. The core non-profit sector¹ accounted for 2.4% of Canada's gross domestic product (GDP) in 2008, generating \$35.4 million for the economy (Statistics Canada, 2010). These organizations, however, are facing a growing sustainability challenge in light of the recent recession and significant demographic changes in Canadian society, including an aging population, growing immigration, and increased urbanization. Overall, these demographic changes have increased the demand for the services provided by the non-profit sector, but government funding and donations have declined (Mulholland, Mendelsohn, & Shamshiri, 2011).

Due to their sustainability challenge, non-profit organizations and charities are increasingly seeking innovative approaches to tackling social issues that affect communities. Social enterprise is one innovative tool being used for this purpose. While 'social' and 'enterprise' may appear to be two contrasting terms, social enterprises aim to strike a balance between social and financial goals, rather than treating these as competing objectives. In particular, these businesses intend to achieve a blended (financial and social) return on investment. For the purposes of this capstone, social enterprise is conceptualized using the UK Department of Trade and Industry's (2003) definition:

¹ The core non-profit sector excludes hospitals, residential care facilities, universities and colleges.

A **social enterprise** is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners (p.6).

The purpose of this study is to explore the challenges experienced by social enterprises in British Columbia (BC) and identify the opportunities for the provincial government to facilitate these businesses in meeting their dual objectives. This section outlines the benefits of social enterprise, the policy problem, the policy goal and objectives, and the organization of this study.

1.1. The Benefits of Social Enterprise

The government has a vested interest in supporting social enterprises because this business model offers several benefits to individuals, the non-profit sector, and Canadian society overall. These positive outcomes ultimately translate into cost savings for the government.

Many social enterprises hire persons facing multiple barriers to employment, providing them with a supportive work environment that offers more flexibility and tolerance than a typical employer. As a result, these individuals experience several benefits from their participation in the labour market. At the most basic level, employees of social enterprises benefit from higher personal incomes. Participation in social enterprises also leads to intangible benefits to the employees, such as higher self-esteem, social inclusion, stability, and increased future earning potential as a result of more developed employable skills (Shahmash, 2010; Ryan & Lyne, 2008).

Another significant benefit of social enterprises is that they create a new source of revenue for the non-profit sector, supporting the capacity of these organizations to overcome their sustainability challenge. While non-profits access funding from three main sources (the government, donations, and earned income), Mulholland, Mendelsohn, and Shamshiri (2011) note that earned income is the only funding source that can realistically be expected to increase in the coming years. Social enterprises provide non-profits and charities with the opportunity to diversify their funding and

improve their long-term organizational sustainability by earning income. This subsequently places non-profit organizations in a stronger financial position to offer their services to communities.

Social enterprises also provide benefits to Canadian society by contributing to the economy and increasing social capital in communities. By providing opportunities for marginalized members of society to participate in the Canadian economy, social enterprises increase the labour supply and generate greater economic activity. Social enterprises also serve to build social capital within communities by reducing the stigma attached to marginalized members of society (Shahmash, 2010).

The individual and societal benefits associated with social enterprises ultimately result in a reduction in social costs incurred by the government. Ryan and Lyne (2008) identify these as reduced government costs for welfare benefits, mental health services, homelessness, and the criminal justice system.

1.2. Policy Problem

While social enterprises lead to positive outcomes for individuals, the non-profit sector, and society at large, these operations have received little assistance from the Government of BC. This study addresses the following policy problem:

Despite the many benefits associated with social enterprises, government support for the growth and development of social enterprises in BC is inadequate.

The provincial government currently has no initiatives specifically targeted to provide ongoing support to social enterprises. In recent years, however, the BC government has demonstrated an interest in social enterprise. In 2008, the provincial government provided \$2.2 million in initial seed funding to the Vancouver Foundation, which contributed to the establishment in 2011 of Resilient Capital, a financing program

for social enterprises (Government of BC, 2011). In October 2010, Gordon Hogg, MLA for Surrey-White Rock, was appointed Parliamentary Secretary for Social Entrepreneurship, which was the first position of its kind in Canada (BC Ministry of Finance, 2010b).² During this time, the BC Advisory Council on Social Entrepreneurship was established with a mandate to make recommendations on how to maximize social innovation in the province. The Council's final report will be released March 31, 2012 (BC Advisory Council on Social Entrepreneurship, 2011). As well, in 2010 the BC government conducted a public consultation on amending the *Business Corporation Act* (BCA) to include Community Interest Companies (CICs), which is a corporate model that would appeal to social enterprises (BC Ministry of Finance, 2010a).

On November 25, 2011, the BC government co-hosted the Non-Profit Partnerships Summit entitled "Collective Impact through Social Innovation". At this Summit, Premier Christy Clark stated that "British Columbia needs to be the incubator for social innovation in North America. That has to be our goal" (Clark, 2011). While social innovation is a broader concept, social enterprise is a key component of promoting social innovation in the province. The Premier also announced that a "collabpetition" would be held in early 2012 in partnership with Ashoka Changemakers, LIFT Philanthropy Partners, TELUS and the UBC Sauder School of Business. This collaborative competition invites British Columbians to submit innovative ideas to address the province's most challenging social problems (Government of BC, 2011).

These actions suggest that the BC government is open to future initiatives supporting social enterprises. The government's interest in social enterprise may be motivated by the benefits communities will experience and/or the costs the government will save. In any case, it is timely for recommendations to be made to the government on how the growth and development of social enterprises can be supported in the province.

² On September 26, 2011 Mr. Hogg was appointed the Parliamentary Secretary for Non-Profit Partnerships.

1.3. Goal and Objectives of the Study

In light of the policy problem, this study explores two research questions:

- What are the major challenges that social enterprises experience in their operations?
- What actions can the government take to assist social enterprises to overcome these challenges?

The goal of the study is to provide policy alternatives for the BC government on how to support the growth and development of social enterprise in the province. The proposed policy options will address one of three objectives, which were derived from the findings of the literature review and interviews conducted for this study. The objectives of this study are to identify and assess policies that could:

- Improve the level of business supports available to social enterprise practitioners;
- Increase social enterprises' ability to access financing;
- Clarify the legal framework surrounding social enterprise.

1.4. Organization of the Study

The following section of this study provides the BC context for social enterprise including demographics and current supports available. Next, a literature review is conducted that focuses on differing definitions of social enterprise and the main challenges these businesses face. The fourth section describes the method of data collection employed in this study, namely semi-structured interviews with key informants from three distinct participant groups. The following section conducts a thematic analysis of the interviews to identify key findings related to the challenges experienced by social enterprises. Six policy options, based on the information collected in the interviews, are then presented and described. The seventh section outlines the standard evaluation framework used to assess the policy options. This evaluation framework is then applied to the policy options and a recommendation to the provincial government is provided. This study concludes with considerations for further research.

2. Provincial Context: Social Enterprise in BC

This section provides the provincial context for social enterprise in BC. It includes a summary of a recent report that produced a demographic profile of social enterprises and an overview of the current non-governmental support that is available to BC social enterprises.

2.1. Demographics

Despite a growing interest in the subject, precise details on the extent of social enterprise in Canada are not well known. A 2010 survey of social enterprises in BC and Alberta, commissioned by the BC-Alberta Social Economy Research Alliance, marked the first attempt to quantitatively measure the presence of social enterprise in these two provinces (Elson & Hall, 2010). The subsequent report, entitled “Strength, Size, Scope: A Survey of Social Enterprises in Alberta and British Columbia,” provides valuable information on the social enterprise landscape of BC. This section highlights the key demographic findings of the report.³

As of 2010, an estimated 231 social enterprises operated in BC, of which 105 participated in the survey. Their average age was 15 years and most were located in Vancouver and the Lower Mainland where demand for services and market opportunities tend to be greatest. The majority of social enterprises in BC sought to fulfill a social mission (71%), but several also acknowledged having an environmental (38%) or cultural (35%) mission. According to the survey, 51% of social enterprises provide

³ All information in this section is from Elson and Hall 2010. All statistics refer solely to BC social enterprises.

employment development, training and/or placement services, and 47% of social enterprises generate income for a parent organization.⁴ Just over half of social enterprises in BC (55%) operated under a parent organization. Most social enterprises in BC were incorporated as a non-profit organization (79%), which includes the 51% of social enterprises formally registered as charities. Additionally, 13% of social enterprises embodied a co-operative corporate structure, and 6% used a for-profit corporate structure.

Social enterprises in BC tend to gravitate toward servicing low-income individuals, persons with mental disabilities, individuals experiencing employment barriers, Aboriginals, women, and youth.⁵ The 105 social enterprises surveyed provided employment to 2,991 individuals (549 full-time, 662 part-time, 366 seasonal, and 1,414 contract). Of those employed by social enterprises, 65% (1,938) were members of a designated social group related to the mission of the social enterprise. The social enterprises surveyed also trained 10,454 people and had 4,880 volunteers. Social enterprises in BC averaged \$536,000 in total revenues, of which an average of \$380,000 came from sales and \$103,701 came from grants, loans, or donations. On average, social enterprises in BC made \$57,000 in net profits.⁶

2.2. Existing Support for Social Enterprises

While social enterprises in BC lack targeted government support, they do have access to a non-governmental support system that is well developed. None of these

⁴ A parent organization is the charity or non-profit organization that owns and/or operates the social enterprise.

⁵ To measure their service and financial outcomes, social enterprises were asked to report based on 2009 data.

⁶ The authors measured profit as revenues minus expenses, but noted that their analysis of profit was “limited, both by sample size and due to the dearth of prior financial records” (Elson & Hall, 2010, p. 37).

support organizations receive ongoing funding from the provincial government to provide their services.

Enterprising Non-Profits (ENP), which was initially established as a pilot project in 1997, is the most well-known intermediary providing support specifically to social enterprises in BC. ENP holds “Building Your Social Enterprise” workshops across the province and in 2006 published the *Canadian Social Enterprise Guide*, which is a toolkit for developing and planning a social enterprise. ENP also provides financial support for technical assistance to social enterprises. Each year, between 50 and 75 organizations receive a grant of up to \$10,000 from ENP (ENP, n.d.). The BC-Alberta Social Economy Research Alliance survey found that ENP was a direct funder of 48% of social enterprises in BC in 2009 (Elson & Hall, 2010). Additionally, ENP advocates on behalf of the social enterprise sector by participating in public policy dialogues with government. There are several funding partners associated with ENP, such as Coast Capital Savings Credit Union, Vancity Community Foundation, the Vancouver Foundation, and Capital One Canada. The success of ENP in BC has led to the launch of additional ENP programs in Toronto, Ottawa, and Alberta (ENP, n.d.).

The BC Centre for Social Enterprise, located in Abbotsford, is a support organization for social enterprises operated by the non-profit Resilient Communities Canada. The Centre provides a variety of free and fee-for-service assistance to social enterprises, including business planning assistance, feasibility studies, workshops, and one-on-one counselling. In addition, the BC Centre for Social Enterprise hosts networking events and houses a library of social enterprise resources. The Centre is also involved in advocacy for the social enterprise sector, particularly with respect to a new legal structure for social enterprise in Canada (BC Centre for Social Enterprise, 2012).

The business community has also demonstrated an interest in supporting social enterprise in the province. BC Social Venture Partners (BCSVP) is a venture philanthropist organization that offers a “time plus money” approach, with members of the business community pooling their funds and professional expertise to assist social enterprises. The BCSVP is comprised of approximately 80 Partners who each donate \$5,000 of their own money annually to the organization’s Partner Pooled Fund. Grants

are awarded for a one to five year period and the social enterprises selected benefit from individualized business advice from one of the Partners. In addition, the BVSCP has partnered with the Vancouver Foundation and Vancity to establish the BVSCP Social Enterprise Fund, which provides second-stage capital grants to social enterprises (BCSVP, n.d.).

There are also services to support social enterprises from the academic community, namely the ISIS Research Centre which is located in the Sauder School of Business at the University of British Columbia. ISIS was launched in 2009 and seeks to use “business tools to advance social innovation and sustainability through research, incubation, and application” (ISIS, n.d.). The Centre offers two programs related to social enterprise. The Social Entrepreneur Program was launched in 2010 and provides assistance to individual social entrepreneurs who are at the early to mid-stage of developing a social venture. This includes concept development, planning, mentoring and network development (ISIS, n.d.). ISIS also offers the Community Experience Initiative Internship, a summer internship program that places MBA students in a social enterprise to offer business-related advice (ISIS, n.d.).

Social enterprises in BC are able to obtain assistance in measuring their social and/or environmental impact from Demonstrating Value, an initiative led by Vancity in partnership with SAP Canada, ENP, and others. Demonstrating Value seeks to build the capacity of social enterprises to measure and communicate the value of their work. Between 2007 and 2009, the Demonstrating Value team developed a framework to assess the performance of social enterprises that is broadly applicable to a range of social enterprises, irrespective of mission, type, or location; affordable and accessible to non-profits; and produces meaningful data for both social enterprises and potential investors (Demonstrating Value, 2009).

The Resilient Capital Program is the most recent initiative available to social enterprises in BC. Established in 2011 by the Vancouver Foundation and Vancity, the program seeks to bridge the gap between grants and access to conventional lending for social enterprises (Resilient Capital Program, 2011). Investors are able to make term deposits of five to seven years into Resilient Capital and earn a fixed interest rate on their investment. Resilient Capital uses this money to make debt and equity investments

in social enterprises (Resilient Capital Program, 2011). These investments range from \$100,000 to \$1.5 million (Vancity, 2011). As of November 2011, the Resilient Capital Program had \$10.35 million in capital available to social enterprises, and Vancity intends to grow the fund to \$15 million (Vancity, 2011). In addition to spearheading Resilient Capital, Vancity and the Vancouver Foundation partner to offer grants, ranging from \$5,000 to \$50,000, to social enterprises with growth potential through the Portfolio Program (Vancity, n.d.).

These various support programs for social enterprise demonstrate a recognition for the positive impact of social enterprises. The provincial government, however, is a key actor absent from the social enterprise support system. There is still a role for government to leverage its financial and regulatory capacity to enable social enterprises to maximize their social impact in communities around the province.

3. Literature Review

This section provides an overview of the literature addressing social enterprises, with particular attention paid to two areas. First, the review will explore how social enterprise is defined in the literature, including how the definition differs in Europe and the US. Second, the review will highlight the main challenges facing social enterprise, including challenges regarding business expertise, accessing financing, and legislative framework.

3.1. Defining Social Enterprise

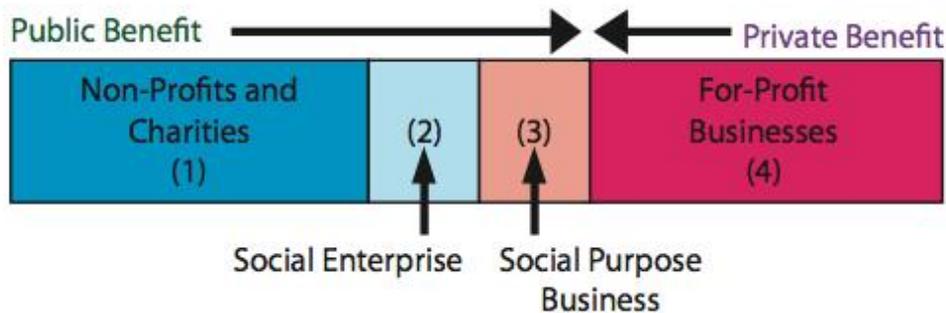
As discussed in section 1, the definition of social enterprise used in this study is “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners” (DTI, 2003, p.6). This definition is relatively broad and includes both non-profit and for-profit structures, as well as income-generating and mission-based models. Although not mutually exclusive, social enterprises tend to adopt either an income-generating or mission-based model. Income-generating social enterprises focus on producing profits that can subsequently be used for socially beneficial purposes. Mission-based social enterprises focus on achieving a social benefit through the operation of the social enterprise, which often takes the form of employing marginalized members of society. Businesses that operate as social enterprises range from thrift stores to catering companies to property management and maintenance services.⁷

⁷ Specific examples of Canadian social enterprises can be found in Appendix A.

It is important to note that there is no universally accepted definition of social enterprise. A broad definition was deliberately selected for research purposes; however, governments may choose a narrower definition for policy purposes.⁸ This sub-section outlines the debate that surrounds the definition of social enterprise.

One of the central debates in the social enterprise literature revolves around the corporate/legal structures of social enterprises. More specifically, the debate addresses whether social enterprise refers solely to a non-profit organization engaging in revenue generating activities or if it also includes for-profit ventures that provide a social good (Teasdale, 2011). In Canada, the definitions of Enterprising Non-Profits⁹ (ENP) and Social Innovation Generation¹⁰ (SiG) link social enterprise to non-profit activities. This perspective is shared by the authors of the 2010 Ontario Social Finance Census. Figure 1 illustrates a social venture spectrum used in the Social Finance Census' report.

Figure 1. Social Venture Spectrum



Source: Adapted from Malhotra, Laird, and Spence 2010

⁸ The Government of BC does not have an official definition of social enterprise as of yet.

⁹ “Social enterprises are businesses operated by non-profits with the dual purpose of generating income by selling a product or service in the marketplace and creating a social, environmental or cultural value.” (<http://www.enterprisingnonprofits.ca/what-social-enterprise>).

¹⁰ “A social enterprise is a business operation commonly run by a charity or not-for-profit organization. Revenue raised by the business operation is reinvested into the charity or NPO to support the programs and operations of the organization.” (sigeneration.ca/primer.html).

This figure illustrates where social enterprise falls on the continuum between the non-profit sector and for-profit businesses. Box 1, on the left side of the spectrum, includes non-profits and charities which focus solely on pursuing a social mission that provides a public benefit. The middle of the spectrum, Boxes 2 and 3, represent social ventures that combine social and financial objectives; however, a distinction is made based on the corporate structure. Social enterprises, encompassed in Box 2, are non-profits and charities that exhibit business characteristics. Social purpose businesses, found in Box 3, include for-profit businesses that exhibit non-profit characteristics by pursuing some degree of public benefit. Box 4, on the far right of the spectrum, represents traditional for-profit businesses with the sole purpose of generating private benefits.

Alternatively, the BC Centre for Social Enterprise includes both non-profit and for-profit entities in its definition.¹¹ There are also some authors who consider social enterprise to transcend legal status (Martin & Thompson, 2010; Wuttunee et al., 2008). These authors contend that it is the social aims of the operation that are the defining feature of social enterprises. There is an awareness in the literature that the lack of consensus over the definition of social enterprise makes it difficult to conduct research (Doherty et al., 2009), target policy decisions to social enterprise (Wyatt, 2010), and promote the sector to the general public (CSC, 2010).

Other authors contributing to this body of literature choose to conceptualize social enterprise by identifying defining characteristics (Neamtam, 2005; Martin & Thompson, 2010; Nova Scotia Social Enterprise Working Group, 2011). The most influential list of social enterprise characteristics in the international context has been developed by the EMES European Research Network, a group of scholars from 15 European Union countries founded in 1996 to study social enterprise in Europe. These researchers developed an 'ideal type' of social enterprise, which includes a set of

¹¹ "Social enterprises are revenue-generating businesses with a twist. Whether operated by a non-profit organization or by a for-profit company, a social enterprise has two goals: to achieve social, cultural, community economic or environmental outcomes; and, to earn revenue" (<http://www.centreforsocialenterprise.com/what.html>).

economic characteristics and a set of social characteristics (Defourny, 2001). The economic characteristics are:

- A continuous activity producing goods and/or selling services;
- A high degree of autonomy;
- A significant level of economic risk;
- A minimum amount of paid work (i.e. not staffed entirely by volunteers).

The social characteristics are:

- An explicit aim to benefit the community;
- An initiative launched by a group of citizens;
- A decision-making power not based on capital ownership;
- A participatory nature, which involves various parties affected by the activity;
- A limited profit distribution (Defourny, 2001).

The EMES characteristics of social enterprise were developed within the European context. The literature also suggests that a comparison can be made between social enterprises in Europe and social enterprises in the United States (US).

3.1.1. Social Enterprise in Europe and the United States

Several authors have made distinctions between understandings of social enterprise in Europe and the US (Kerlin, 2006; Defourny & Nyssens, 2009; Doherty et al., 2009; Ridley-Duff & Bull, 2011; Teasdale, 2011). According to Defourny and Nyssens (2009), a social mission is central to the understanding of social enterprise in both Europe and the US. However, in Europe the social mission tends to be an active component of the social enterprise. These authors note that in Europe “the nature of the economic activity is closely connected to the social mission” (Defourny & Nyssens 2009, p.17). This means that it is through the production of goods/services that the social mission is accomplished (i.e. hiring persons with disabilities or youth at-risk). In contrast, the US has a more general understanding of how a social enterprise contributes to a social mission. Defourny and Nyssens (2009) state “social enterprises can develop business activities which are only related to the social mission through the financial resources they help to secure” (p. 17). A social enterprise in the US can therefore

support a social mission indirectly by generating revenue for a non-profit's other services (e.g. a thrift store whose profits go to a non-profit organization).

Kerlin (2006) also makes several key distinctions between social enterprises in the US and Europe, as are summarized in Table 1.

Table 1: Comparison of Social Enterprise in US and Europe

	United States	Europe
Emphasis	Revenue Generation	Social Benefit
Common Organizational Type	Nonprofit (501(c) (3))	Association/Cooperative
Strategic Development	Foundations	Government/EU
University Research	Business and Social Science	Social Science
Context	Market Economy	Social Economy
Legal Framework	Lacking	Underdeveloped but Improving

Source: Adapted from Kerlin 2006

In Europe, social enterprises are commonly formed as co-operatives and tend to focus on providing a social benefit to communities. In contrast, social enterprises in the US are predominantly formed by non-profit entities with the intent of generating revenue. As such, social enterprises in Europe are seen to operate in the social economy, while those in the US operate in the market economy. Because co-operatives are a central component of the social economy sector, social enterprises in Europe allow for some degree of profit distribution. Conversely, the US definition of social enterprise does not allow for this type of profit distribution.¹² Another point of comparison can be made between the governance of social enterprises. There is an emphasis in Europe on a formal democratic management system; in contrast, social enterprises in the US do not tend to have this participatory style of management.

¹² The introduction of the Low-Profit Limited Liability Company (L3C) legal form in recent years suggests that profit distribution may become more accepted in the US.

Kerlin (2006) also makes an important distinction between the institutional environments for social enterprises in these two regions. In Europe, social enterprises are largely funded and supported by the government, whereas in the US, much of the financial and organizational support for social enterprises is provided by private foundations. This private sector/government dichotomy is also reflected in the social enterprise academic research. In Europe social science departments conduct the majority of social enterprise research. Conversely, in the US, business schools are equally as active as social science departments in the study of social enterprises (Kerlin, 2006). Finally, the legal framework for social enterprise is more developed in Europe than the US. A number of Western European countries have implemented legislation specific to social enterprises.¹³

3.1.2. Social Enterprise in Canada

Although not discussed in the academic literature, the distinction between the US and European conceptions of social enterprise is reflected on a smaller scale within Canada. Social economy enterprises, as they are referred to in Quebec, are conceived in a similar manner as in Europe. According to Girard and Langlois (2009), collective ownership is a central feature of the social economy in Quebec. Furthermore, this characteristic is not defined by “a rigid adherence to a particular legal form but rather to the commitment to democratic governance” (Girard & Langlois, 2009, p. 102). As such, all co-operatives in Quebec are considered to be social economy enterprises. The conception of social enterprise in Canada outside of Quebec, in contrast, is closer to that of the US and excludes co-operatives (Manitoba CED Network, 2009).

¹³ This includes Italy, Belgium, Portugal, Greece, France, and the United Kingdom (Kerlin, 2006).

3.2. Challenges to Social Enterprise

Three major challenges that serve to inhibit the success of social enterprises are identified in the literature: limited business expertise in the non-profit sector, accessing financing, and legislative barriers.

3.2.1. Business Expertise

One challenge to social enterprises identified in the literature is a general lack of business expertise among social enterprise practitioners, as most are accustomed to working in the non-profit sector. There are significant differences between operating a non-profit organization and operating a social enterprise, which tends to require a higher level of efficiency. Borzaga and Solari (2001) note that “as social enterprises move from reliance on donations and funding... to the delivery of goods and services, the balance shifts from advocacy and fundraising to management of quality and customer satisfaction, which in turn require an increase in operational efficiency” (p. 334). This demonstrates the additional considerations that must be made when operating a social enterprise. The authors contend that administering a social enterprise not only differs from traditional non-profit management, but also falls outside the scope of other existing management models. Public sector management is too closely tied to the bureaucracy and private sector management excludes considerations of social mission and values (Borzaga & Solari, 2001).

The unique task of managing a social enterprise makes it difficult for these organizations to find managers that possess the necessary entrepreneurial skills to operate a business and who are also committed to social values (Manitoba CED Network, 2009; Shahmash, 2010). A report by the Community Sector Council of Newfoundland and Labrador (CSC) (2010) identifies the recruitment and retention of staff as a major challenge for social enterprises. Further complicating the ability of social enterprises to attract qualified managers is the fact that salaries are typically less than would be found in for-profit settings (Shahmesh, 2010; CSC 2010).

Social enterprises also face difficulty in accessing the resources available to traditional businesses. ENP (2011) examined federal, provincial and territorial small and

medium enterprises (SME) services to determine their accessibility to social enterprises. They found that while there were few cases of actual barriers to SME services, there was a high level of confusion and perceived barriers on the part of service providers, as well as social enterprises, regarding social enterprises' eligibility to access these resources. Specifically, 5% of services examined explicitly included social enterprises, 2% expressly excluded social enterprises, and 93% lacked clarity as to whether social enterprises qualified for services (ENP, 2011). The ambiguity surrounding the accessibility of social enterprises to SME services was attributed to a general lack of knowledge about the services for which non-profits are eligible, as well as a gap between the stated intentions of government programs and the support provided in practice (ENP, 2011). The difficulty experienced in accessing SME services is an obstacle for social enterprise practitioners to improve their business expertise.

A unique business challenge facing social enterprise practitioners is the lack of an appropriate method to measure success. Authors note that the typical tools used to measure success in the corporate sector are inadequate for measuring the social impact that social enterprises achieve (Ryan & Lyne, 2008; Doherty et al., 2009). According to Ridley-Duff and Bull (2011), "where programme outcomes do not have a market, or a monetary value, but are valued within a community, it is difficult – perhaps impossible – to assess value using a commercial framework" (p.245). In their study, the CSC (2010) found that the most significant priority for promoting social enterprises was to measure and promote the real value of social enterprise. The authors conclude that until social enterprises are able to demonstrate their social return on investments, their ability to access financing and other support will be limited.

3.2.2. Accessing Financing

A second challenge to social enterprises commonly discussed in the literature is the difficulty in accessing financing. The CSC (2010) found that the need for early stage funding was the second major priority for social enterprise practitioners in Newfoundland and Labrador. The undercapitalization of social enterprises has two consequences: (1) decisions based on short-term rather than long-term considerations; and (2) a lack of time for the enterprise to become financially sustainable (CSC, 2010). These consequences serve to limit social enterprises' capacity for growth and long-term

sustainability. The Nova Scotia Social Enterprise Working Group (2011) linked the difficulty accessing financing to social enterprises' lack of credibility in the financial sector.

Wuttunee et al. (2008) found in their study of financing providers in Manitoba, Saskatchewan, and Northern Ontario that these agencies follow their standard formal application processes when social enterprises apply for financing. As such, the major criteria considered in evaluating applications are: (1) the viability of the enterprise; and (2) ability to repay the debt. The authors state that this can be problematic for social enterprise practitioners who are more familiar with accessing funding through donations or grants from government and private foundations.

The corporate structure of social enterprises also constrains their ability to access capital. As noted by Manwaring and Valentine (2010) and Shahmash (2010), social enterprises incorporated in a non-profit format cannot issue shares, which causes difficulty in attracting private investments.

3.2.3. Legislative Barriers

A third challenge that has garnered particular attention in the Canadian literature is the legislative barriers to social enterprises (Gould, 2006; Bridge & Corriveau, 2009; Carter & Man, 2009; Manwaring & Valentine, 2010; Nova Scotia Social Enterprise Working Group, 2011). The major challenge is that 'social enterprise' is not a legal term in Canada. As explained by Corriveau (2009), "there is no national or provincial social enterprise act or regulation that defines it or gives it legal form or structure. It is not addressed in the federal *Income Tax Act* as something distinct and worthy of unique treatment" (p. 21). As such, social enterprises must operate under an existing corporate structure; either a registered charity, a non-profit organization, or a business corporation (Manwaring & Valentine, 2010).

Carter and Man (2009) offer an in-depth analysis of each of these corporate structures as they apply to social enterprises. The charity and non-profit models offer tax advantages, but have strict regulations on the activities that can be pursued. Corriveau (2010) contests that many charities and non-profits are not fully aware of these strict

regulations and, as a result, are offside with the Canada Revenue Agency (CRA) by operating their social enterprise.

According to a CRA (2003) policy statement, registered charities are permitted to run a 'related business'. There are two types of related businesses: (1) businesses that are run substantially by volunteers;¹⁴ and (2) businesses that are linked to a charity's purpose and subordinate to that purpose (Canada Revenue Agency, 2003). If a charity is deemed to operate an unrelated business, it can lose its charitable status.

A 2009 opinion letter by the CRA suggests that non-profits can lose their tax exempt status as a 149(1)(1) organization under the federal *Income Tax Act* if they intentionally generate a profit (Canadian Task Force on Social Finance, 2011). Earning an intentional profit is not permitted, even if that profit is generated to support the activities of the non-profit organization (Corriveau, 2010). The opinion letter states:

Paragraph 149(1)(l) of the Act requires that an organization be organized and operated "exclusively" for "any other purpose except profit" in order to be exempt from tax under that provision. In our view, the use of the word "exclusively" indicates that while an organization may have many purposes, none of those purposes may be to earn a profit. **Thus, where an organization intends, at any time, to earn a profit, it will not be exempt from tax under paragraph 149(1)(l) even if it expects to use or actually uses that profit to support its not-for-profit objectives.** The CRA accepts that a 149(1)(l) entity can earn a profit; otherwise, the tax exemption provided would be unnecessary. **Earning a profit, in and of itself, does not prevent an organization from being a 149(1)(l) entity. However, the profit should generally be unanticipated and incidental to the purpose or purposes of the organization** (as cited in Bridge, 2010, p. 12).

This opinion letter suggests that a non-profit organization is prohibited from operating a social enterprise with a revenue-generating purpose, as this would constitute intentionally earning a profit. This is the case even if the profit is intended to fund the programs and services of the non-profit organization.

¹⁴ Substantially means that a minimum of 90% of employees are unpaid volunteers.

Carter and Man (2009) found that the types of revenue-generating practices that are accepted by the CRA for charities and non-profits in Canada are “extremely restrictive and falls far short of the broad ‘social enterprise’ activities that are being conducted across the global landscape” (p. 5). Consequently, social enterprises must find ways around these restrictions (Gould; 2006; Corriveau, 2009). One way social enterprises can maneuver around these restrictions is to operate as a for-profit business corporation. While a business corporation is not tax-exempt, Manwaring and Valentine (2010) note that “corporations are permitted to deduct up to 75% of their annual income for donations to qualified donees¹⁵...” (p.402). In this case, the for-profit social enterprise would only have to pay corporate tax on the remaining 25% of their income.

Several authors (Carter & Man, 2009; Bridge & Corriveau, 2009; Manwaring & Valentine, 2010) note that both the UK and US governments have established hybrid corporate structures that appeal to social enterprises.¹⁶ Wyatt (2010), however, is sceptical that legislative changes would lead to more successful social enterprises. He argues that there is not data to suggest that new corporate structures in the UK and US have resulted in more support for social enterprises.

¹⁵ It is important to note that registered charities are qualified donees, but non-profit organizations are not.

¹⁶ Community Interest Companies (CICs) in the UK and Low-profit Limited Liability (L3Cs) in the US.

4. Methodology

This study uses semi-structured interviews, a qualitative research methodology, to investigate the challenges facing social enterprises in BC and potential policy options for the provincial government. Semi-structured interviews are “generally organised around a set of predetermined open-ended questions, with other questions emerging from the dialogue between interviewer and interviewee/s” (DiCicco-Bloom & Crabtree, 2006, p. 315). Semi-structured interviews are a useful research method because they allow for flexibility between interviews in terms of how and in what order questions are asked (Mason, 2004). As well, semi-structured interviews enable two-way communication between the interviewer and interviewee which permits for the elaboration and clarification of participants’ responses. This section provides details on this study’s research approach including the interviews, participants, and method of data analysis.

4.1. The Interviews

A total of 19 semi-structured interviews were conducted with 23 key informants from 3 participant groups. The interviews for this study took place between October 2011 and January 2012 in Vancouver and Victoria. Most interviews were conducted in person; however, geographic and scheduling limitations required six interviews to be conducted over the phone. The interview guide was comprised of three broad questions related to: (1) the participant’s involvement with social enterprise; (2) the challenges that social enterprises face and; (3) potential policy responses to these challenges. Prompts informed by the literature and previous interviews were included in the interview guide. The interview guide is located in Appendix B.

When the interview guide was initially composed, the layout of the interviews was expected to be the same for all three participant groups. As the interviews progressed,

however, the emphasis of the three broad questions varied depending on the participant's group. Interviews with social enterprise practitioners focused on the challenges experienced, while interviews with intermediaries and policymakers focused on the opportunities for government to address these challenges. This illustrates the flexibility of semi-structured interviews, which allow for minor changes to be made to the interview guide throughout the research process. Additionally, the semi-structured interview format was selected for this particular study because it enabled the interviewer to follow-up on the unique challenges experienced by each social enterprise. The broad open-ended questions permitted the participants to provide detailed responses and for there to be a dialogue between the participant and interviewer.

The interviews were recorded to both ensure accuracy and to create a more relaxed environment where the interviewer was not distracted by taking notes (Whiting, 2008). The interviews were also transcribed to assist in the analysis of the interview content.

4.2. The Participants

Three groups of participants were interviewed for this study:

1. Social enterprise practitioners (n=12);
2. Academics and intermediaries (n=6);
3. Policymakers (n=5).

Social enterprise practitioners are individuals who operate social enterprises. This group was included in the study to provide insight into the major challenges that social enterprises experience in the start-up phase and day-to-day operation. Social enterprise practitioners were recruited using purposeful sampling. This type of sampling involves “the deliberate seeking out of participants with particular characteristics, according to the needs of the developing analysis” (Morse, 2004, p. 884). Purposeful sampling was used to ensure a range of experiences in the administration of social enterprises was included in the study. Social enterprise practitioners were chosen on the basis of two criteria: (1) location (urban, suburban, or rural) and (2) type of social

enterprise (mission-based or income generating). A minimum of one social enterprise from each location and type was interviewed.

Academics provide support in the form of studies examining the conditions under which social enterprises are successful and assessing the outcomes of these businesses. These participants include professors from Simon Fraser University and Mount Royal University, who co-authored a report on social enterprise in BC and Alberta, as well as a representative from the ISIS Research Centre, which is housed by the University of British Columbia. Intermediaries provide support by offering services to social enterprises and promoting the concept of social enterprise to the public. This participant group included representatives from Enterprising Non-Profits (ENP), BC Social Venture Partners (BCSVP), and the BC Centre on Social Enterprise. Academics and intermediaries were included for their expertise on the challenges that emerge from their interaction with social enterprises and the steps the provincial government can take to facilitate the growth of social enterprise. These participants were recruited using convenience sampling, which entails “selecting sample units that are readily accessible to the researcher” (Phua, 2004, 197).

Policymakers are government officials who are responsible for making decisions that will affect social enterprises in BC. This group was included for their expertise on possible actions that government can take to support social enterprise development. This included Gordon Hogg, Parliamentary Secretary for Non-Profit Partnerships, and representatives from the Ministry of Social Development, the Ministry of Finance, and the Advisory Council on Social Entrepreneurship. The policymakers participant group was recruited by convenience sampling.

Table 2 provides a list of the individuals interviewed for this study, by participant group. Three participants requested anonymity and were assigned the titles Practitioner #1, Representative #1, and Representative #2.

Table 2: List of Participants by Group

Participant Group	Name of Participant	Organization
Social Enterprise Practitioners	Michele Cherot	The Right Stuff
	Laura Hayes	H.A.V.E Café
	Lynn Sanderson	South Fraser Concierge
	Practitioner #1	Social Enterprise A
	Ruth Hoffman	The Grape Box
	Sam Berthoud	JustWork
	David Holcomb	JustWork
	Mariana Garcia	My Sister's Closet
	Margaret Laidlaw	Blade Runner Shredding Services
	Melanie Frantino	Blade Runner Shredding Services
	Shaugh Schwartz	The Cleaning Solution
	Lesley Patten	Every ASPECT Management
Academics and Intermediaries	David LePage	Program Manager, Enterprising Non-Profits
	Stacey Corriveau	Director, BC Centre for Social Enterprise
	Cindy Pandini	Executive Director, BC Social Venture Partners
	Joanna Buczkowska-McCumber	Managing Director, ISIS Research Centre
	Dr. Peter Hall	Associate Professor, Simon Fraser University
	Dr. Peter Elson	Senior Research Associate, Mount Royal University
Policymakers	Gordon Hogg (MLA)	Parliamentary Secretary for Non-Profit Partnerships
	Andrew Wharton	Special Advisor, BC Ministry of Social Development
	Al Etmanski	Co-Chair, Advisory Council on Social Entrepreneurship
	Representative #1	BC Ministry of Finance
	Representative #2	BC Ministry of Finance

4.3. Data Analysis

The findings of this study stem from a thematic analysis of the interviews conducted. This approach seeks to identify, analyze, and report themes within the interview responses. In addition, thematic analysis has been identified as being of particular use to inform policy development (Braun & Clarke, 2006). The interview transcriptions were carefully read several times and a series of themes and sub-themes derived from the comments made by the key informants.

5. Interview Key Findings: Challenges Facing Social Enterprises

A thematic analysis of the interviews was conducted to identify key findings on the challenges faced by social enterprise practitioners. The analysis produced three overarching themes and nine sub-themes, outlined in Table 3. The first theme relates to the **business operations** of social enterprises and includes a discussion of (a) business expertise among practitioners, (b) reconciling business and social objectives, (c) measuring success of social enterprises, and (d) ensuring the quality of products and services. The second theme explores **financing** for social enterprises and includes sub-themes on (a) common sources of funding, (b) the lack of loans available to social enterprises, and (c) the need for the right type of financing at the right time. The third theme centres on the **legal framework** for social enterprises and highlights the participants' comments on (a) the legal ambiguity associated with social enterprises and (b) operating a social enterprise as a for-profit entity.

Table 3: Themes and Sub-themes Identified in Interviews

Theme	Sub-Theme
Business Operations	Knowledge: Business Expertise among Practitioners
	Finding the Balance: Reconciling Business and Social Objectives
	Outcomes: Measuring Success of Social Enterprises
	Competition: Ensuring the Quality of Products and Services
Financing	Common Sources of Funding
	Lack of Loans Among Social Enterprises
	Right Type of Financing at the Right Time
Legal Framework	Legal Ambiguity Associated with Social Enterprises
	Operating as a For-Profit Entity

5.1. Business Operations

5.1.1. Knowledge: Business Expertise of Practitioners

The lack of business expertise among social enterprise practitioners was a major theme in the literature (Shahmash, 2010; Borzaga & Solari, 2001). The intermediaries interviewed echoed this finding, identifying the lack of business acumen as a challenge faced by most of the social enterprises they assist.

It's easier to teach a business person to add multiple bottom lines to their business than it is to teach a social worker how to run a business. And that's the side I'm working on, is teaching the social worker to run a business.

(Stacy Corriveau, BC Centre for Social Enterprise)

A lot of times unfortunately, and I say this with all due respect, the person running the social enterprise is the same person running the non-profit and those are two different skill sets. If you consider your social enterprise a program of your non-profit, you're never going to win. You have to accept it as a free-standing business and treat it as such.

(Cindy Pandini, BC Social Venture Partners)

Many of the services offered by the intermediaries aim to develop the business skills of social enterprise practitioners. David LePage of ENP linked this challenge to the fundamental culture shift that must occur for non-profits to operate a successful business.

How do you make the cultural shift from being grant-driven and risk-averse, to being entrepreneurial and risk interested? And how you start talking about not just clients that you're working with but... customers and how do you talk about what used to be your client as now an employee?

(David LePage, Enterprising Non-Profits)

Lesley Patten, who operates Every ASPECT Management, also identified the change in culture as a key consideration for social enterprises.

*...there's also just the mindset of "let's not charge them too much" and all of that nicey, nicey that comes from the sector. And I've caught it. And if you're not getting people from the outside who are running this for you who are business people, I think it's a real change that you have to put in place... **We're not trying to just help our members. No, these are our clients [who] we are trying to service as best as we can... This is business.***

(Lesley Patten, Every ASPECT Management)

The majority of social enterprise practitioners interviewed in this study did have some business knowledge, including two individuals with a Master's in Business Administration (MBA) and another with a commerce degree. Other practitioners had spent time in the corporate world prior to joining the social enterprise. In some cases, the social enterprises hired a business expert at the start of their social enterprise. In other cases, the individuals with business expertise were brought on after the social enterprise had been established. These practitioners that joined later noted that the lack of business knowledge had been a challenge prior to their arrival.

*In not-for-profits they use somebody within their organization to run [social enterprises], and they don't have – it's not a criticism – but **they just don't have the business skills.** And this is one of the challenges that happens with social enterprise, is that they come from this social space, social mission, but they just don't have the right people in place.*

(Ruth Hoffman, The Grape Box)

The practitioners interviewed with a business background still had to learn how to adjust their business approach to working for a social enterprise. One practitioner who came from the corporate sector explained how her business strategy had changed since beginning to work at the social enterprise.

Now when people ask me I say I make social decisions with a business context and before I made business decisions with a social context. Those are two entirely different things.

(Lynn Sanderson, South Fraser Concierge)

The social enterprise practitioners that did not have formal business expertise identified strategies to deal with the lack of business knowledge. Several practitioners tapped into the business knowledge available from the board members of their

organizations. Another social enterprise practitioner had a mentor from the business community, who met weekly to provide advice.

5.1.2. Finding the Balance: Reconciling Business and Social Objectives

A recurring theme in the interviews with social enterprise practitioners was the difficulty in reconciling the business objectives of the social enterprise with the social objectives. These two objectives were in conflict and often forced the social enterprise practitioners to make difficult decisions. The practitioners and intermediaries stressed the importance of finding a balance between social and business objectives when operating a social enterprise.

*My office, the colour is a patchy red, and I always tell everyone when you come into the red office it's different. Because in the Centre you think with your heart, you think with your social conscience, and we do here too, but we also have a business context. It's like those little cartoons where you have one little guy sitting on this shoulder, the other guy sitting on this shoulder and they're fighting all the time because **sometimes the business decisions don't make social sense and sometimes the social decisions don't make business sense and you have to find where the right fit is.***

(Lynn Sanderson, South Fraser Concierge)

A big tension that I see is social enterprises expect to do two things that contradict each other. So the first thing is to make profane amounts of profits for the parent organization. The second one is to create training and employment for the marginalized. And the second one is inherently inefficient and in conflict with the first one.

(Stacey Corriveau, BC Centre for Social Enterprise)

These competing interests have implications for recruiting staff, as well as for the relationships between employees of social enterprises. One practitioner noted that these two objectives complicate the ability of social enterprises to find the right staff.

It's not like a normal job... it's all over the map because you have your business side and your social side... [T]his is going to be a difficult task to find someone who is going to come and be able to feel comfortable and enjoy working with people from the community, working with people who have barriers to employment in the Downtown Eastside. But who can,

when the opportunity is there, apply for grants and funding and all of that as well, go to business meetings and develop business.

(Laura Hayes, H.A.V.E Café)

Another practitioner discussed how the competing social and business objectives of the social enterprise led to tension in the workplace.

*One of the things that happened, because we were focused on the whole business side of things, is internally our employment counsellors, who are very concerned about clients and maybe don't have a complete understanding of business practices, were getting pretty upset that there was such a strong focus on business outcomes as opposed to social outcomes. And, **there was a real pushback from staff internally...***

(Michele Cherot, The Right Stuff)

The competing social and business objectives are a defining feature of any social enterprise; they are inherent to its purpose. As such, it is a challenge that social enterprises must recognize.

5.1.3. Outcomes: Measuring Success of Social Enterprises

The interviewees recognized the importance of measuring the success of social enterprises. Several reasons for measuring the outcomes of one's social enterprise were provided. These include improving accountability for outcomes; making informed decisions regarding the social enterprise; promoting the social enterprise to potential clients and the general public; attracting social investment; and identifying the social costs saved by the government as a result of the social enterprise.

The respondents' opinions varied over the difficulty in measuring success. While some considered the task of measuring financial and social returns to be challenging, others had found success, particularly using Vancity Community Foundation's Demonstrating Value program. Those that considered measuring success to be a challenge highlighted the fact that measuring social impact is both a quantitative and qualitative exercise.

[In] business it's easy to show how you're successful, your numbers show it, right? If you have money in the bank you're successful. If you're growing you're successful. ... That being said, there's all these subjective

measures of success that are a lot more difficult to put out there in the world...We're looking at more narratives, [such as] your success stories coming from the students. Because that, more than anything - more than your numbers, more than how many people got jobs, is how this has impacted their life, for the long term as well.

(Laura Hayes, H.A.V.E Café)

Two of the respondents who were successful in measuring the impact of their social enterprises had been assisted by the Demonstrating Value initiative. As a result, they were able to provide a snapshot of both the financial and social returns the social enterprise was generating. The data collected as part of Demonstrating Value was described as “incredibly rich” by one practitioner and included information on employee retention, customer satisfaction, and the cost per employee of employment supports provided by the social enterprise.

The respondents who mentioned Demonstrating Value appreciated that the program was in place. Two of the practitioners, however, faced challenges in using Demonstrating Value. One practitioner who had begun the Demonstrating Value process had found it to be too time consuming given the time commitment necessary to manage the social enterprise. Another practitioner noted that their organization faced resistance from their employees in undertaking the Demonstrating Value initiative. He attributed the resistance to the fact that it reminded the workers of their interaction with the social service sector, treating them as clients rather than employees.

Most of the people we employ are very familiar with the social service system and being seen as a client and all the paperwork that that involves. And one thing that we bring [as a social enterprise] is that we're not quite the same, we offer something that's different and an experience that's different. And so by going down that road it's like it's no different than anything else.

(David Holcomb, JustWork)

One practitioner, who successfully uses Demonstrating Value, recognized that this program may be a better option for more established social enterprises. He recommended that smaller organizations:

Figure out what your statistics are, the key five or six indicators, and track those. It's when you get larger – maybe over half a million – that [Demonstrating Value] starts to come into play.

(Shaughn Schwartz, The Cleaning Solution)

Two practitioners believed that the sector was over-complicating measuring the success of social enterprises and were not convinced that a formal program was needed to demonstrate the social impact of social enterprises.

5.1.4. Competition: Ensuring the Quality of Products and Services

Another recurring theme that emerged from the interviews was that social enterprises need to provide a quality product or service that is on par with traditional businesses in order to be successful. Clients will not continue to support the social enterprise if their products and services are not comparable to traditional businesses.

If we don't keep the quality of the service that we're providing, I don't think people will really care where the money is going.

(Lesley Patten, Every ASPECT Management)

First and foremost, you have to run it as a good business. You know, you can have the best cause in the world, but if you don't have money coming in, you can't do anything right?

(Laura Hayes, H.A.V.E Café)

Because we sell a professional clean, that's what our customers pay for, that's what they expect and rightly so. So if they're not going to get a professional clean, then we don't even need to be here.

(Lynn Sanderson, South Fraser Concierge)

They're buying cleaning service, but they want to align their procurement practices with their overall values. So that does get us in the door a lot of the times, but we have to be competitive on the price and we have to deliver the service. If you don't deliver, you're done, particularly in this industry.

(Shaughn Schwartz, The Cleaning Solution)

Because social enterprises have business objectives and compete in the marketplace, there were a few ways in which social enterprises behaved differently than non-profits. For example, while social enterprises are a more supportive employer than traditional businesses, some of the social enterprise practitioners had to fire employees

who were marginalized members of society because they were not performing up to the standards of the business. As well, one practitioner noted that their social enterprise did not accept volunteers because it would take a training opportunity away from a potential participant. This theme was also evident when a practitioner expressed hesitation at sharing best practices with another social enterprise offering a similar service, because they were considered to be competitors.

5.2. Financing

5.2.1. Common Sources of Funding

The literature suggests that social enterprises experience difficulty in accessing financing, particularly in the start-up phase of the business. Among those interviewed, there were two main sources of funds used to start a social enterprise: (1) money provided by the parent organization; and (2) money accessed through a grant. Loans from traditional financial institutions remained largely unused by the interviewees.

Several of the practitioners interviewed noted that the social enterprise was established using funds from the parent organization. There was a strong desire among these social enterprises to repay the money to the parent organization or to turn a profit as quickly as possible to contribute financially to the parent organization.

Our first objective financially was to pay the Skills Centre back for the money we borrowed to get started. There was no interest charged on that, but we did accomplish that [within 14 months].

(Michele Cherot, The Right Stuff)

Social enterprises also benefited from in-kind support from the parent organization. Most of the social enterprises, for example, had shared a building with the parent organization during the initial start-up period. While some had since outgrown the space and required a separate building, just under half of the social enterprises were still sharing the parent organization's office space.

Grants from foundations were another main source of funding, not only in the start-up phase, but also to support the ongoing growth of the social enterprises. These

grants came from sources such as the Vancouver Foundation, Vancity Community Foundation, the Columbia Basin Trust, Enterprising Non-Profits, and BC Social Venture Partners. Additionally, a car was donated to one social enterprise by the Rotary Club. One practitioner noted, however, that grant applications are a time-consuming endeavour that can be difficult to fit in with the demands of operating a business.

The unfortunate part is as you get more involved in the business and the operational time takes more and more from you, you have less and less time to research those grants.

(Lynn Sanderson, South Fraser Concierge)

The social enterprises interviewed tended to access financing from sources that are familiar to the non-profit sector, rather than sources that are familiar to a typical business, such as banks or private investors. This is an interesting finding considering a common goal of social enterprise is to make the non-profit sector less reliant on grants and donations.

5.2.2. Lack of Loans Among Social Enterprises

Only one interviewee identified a traditional financial institution as a source of capital. The Cranbrook Society for Community Living holds a mortgage with the East Kootenay Community Credit Union for the separate building they bought to house their social enterprise, Blade Runner Shredding Services. Margaret Laidlaw noted that they were able to obtain a mortgage because their organization had equity from owning another building, which most non-profits do not have. This indicates that there might be institutional barriers facing social enterprises in qualifying for a loan from these actors.

Most of the social enterprise practitioners, however, did not indicate that they had considered approaching a financial institution for a loan. This suggests that the lack of loans among social enterprises can also be linked to the culture shift that must occur in the non-profit sector when operating a social enterprise. Social enterprise practitioners from the non-profit sector are more comfortable submitting a grant proposal than a loan application. Ruth Hoffman noted that a for-profit structure would better facilitate the ability of social enterprises to access capital.

Cindy Pandini from BCSVP felt that while grants have a role to play, for social enterprises to be truly successful they need to start accessing loans.

In some ways social enterprise is never going to succeed if they keep getting grants from groups like ours. They need to get loans, they need to understand that they're running a business, and they need to get loans. Because otherwise, where is their commitment?

(Cindy Pandini, BC Social Venture Partners)

The interviews illustrate that loans are a relatively untapped source of financing for social enterprises.

5.2.3. The Right Type of Financing at the Right Time

The respondents also discussed the timing of the different types of financing. David LePage highlighted the importance of having the appropriate kind of funding available to social enterprises at the right time. While a social enterprise may need a grant at the start-up phase, once the business develops it will have the capacity to attain and manage a loan to further expand and improve the business. Al Etmanski also discussed the difficulty in determining when different types of financing should be used.

It's about sorting out how to use the capital that's available, when to use grants, when not to, when to move into debt and equity. I think that's the real challenge.

(Al Etmanski, BC Advisory Council on Social Entrepreneurship)

Stacey Corriveau recommended any government social enterprise fund should address the different financing needs of social enterprises. While the majority of the government financing should be through loans, a portion should be allocated for grants to support capacity development to ensure the businesses are sustainable.

You wouldn't want a government fund just to be free money. You want it to be repayable so you can use the money again and again and again. For it to be repayable you need to have viable businesses in the first place.

(Stacy Corriveau, BC Centre Social Enterprise)

Ideally, a financing system would enable social enterprises to access money at all stages of development.

5.3. Legal Framework

5.3.1. Legal Ambiguity Associated with Social Enterprises

Although the literature identified legal ambiguity as a major challenge for social enterprises, operationally, it did not appear to be a concern for many of the social enterprise practitioners interviewed. In some cases, the social enterprise qualified as a related business of the charity. Shaun Schwartz, who operates a non-profit social enterprise, did not think the concern over legal structures was warranted.

I think that it's all ado about nothing because non-profits are permitted to generate profit and they're actually permitted to generate a healthy profit. The worst thing that can happen to a non-profit that generates profit...is that they have to pay tax. That's it. They will have to pay tax on any of their excess profit. But if whatever you're doing goes to activate your purposes then you're onside.

(Shaun Schwartz, The Cleaning Solution)

One social practitioner acknowledged that there was some confusion regarding the legal structure of social enterprises, but did not consider it to be a priority.

There is legal ambiguity so it would be nicer to have that cleaned up, that's clear, but that's not top on our books.

(Sam Berthoud, JustWork)

Dr. Peter Hall noted that in many cases social enterprises are not aware of the legislative barriers to operating a social enterprise until they experience it firsthand.

If you make so much money that it starts to become a problem with the CRA then you might do something about it. But until after you make that money you don't even know that you have a problem.

(Dr. Peter Hall, Simon Fraser University)

The intermediaries were split as to whether the legal ambiguity related to social enterprises was a restrictive factor in practice. Stacy Corriveau of the BC Centre for

social enterprise noted that many of the social enterprises that she works with have “a blind spot around what they might be doing to jeopardize their charitable registration or tax exemption.” Corriveau conceded that BC’s *Society Act* has very enabling language surrounding a non-profit’s ability to earn revenue,¹⁷ but stressed that the federal *Income Tax Act* has the overarching power to deem organizations as tax exempt. She highlighted the recent rulings by CRA which stated that a non-profit can only make a profit by mistake (Bridge, 2010). Conversely, David LePage did not consider the unclear legal framework to be a critical issue in the work that ENP does to support social enterprise.

We’ve been doing this for ten years and that’s never been an obstacle... If you’re running a charity and doing an unrelated business, spin it off and don’t jeopardize your charitable status. This is not rocket science; people just have to be paying attention.

(David LePage, Enterprising Non-Profits)

5.3.2. Operating as a For-Profit Entity

Two of the practitioners operating non-profit social enterprises stated that they were open to transitioning to a for-profit structure if their profit became too large. But it was not something that was seen to be likely to occur in the near future.

I think if we ever got to the point where we would grow so big that our profits are so great ... we wouldn’t have a problem pulling that business from the organization and having it be a standalone. That would not be an issue.

(Melanie Frantino, Blade Runner Shredding Services)

We are currently a division of the charity, South Fraser Women’s Services Society... Is it possible at some point in time that we become an identity unto ourselves? Yes, because if you start making too much money that

¹⁷ Section 2(2) of BC’s *Society Act* states “Carrying on a business, trade, industry or profession as an incident to the purposes of a society is not prohibited by this section, but a society must not distribute any gain, profit or dividend...”

has to happen... We do know that, but we're not nearly there financially yet, so we don't have to make that step.

(Lynn Sanderson, South Fraser Concierge)

Every ASPECT Management was the only social enterprise interviewed that was incorporated as a for-profit entity. Prior to starting the social enterprise, the parent non-profit, Association of Service Providers for Employability and Career Training (ASPECT), had organized conferences and professional development sessions. With its financial success, however, ASPECT decided it was necessary set up that portion of their organization as a separate entity, providing more flexibility to enter into various aspects of the event planning business.

ASPECT started to become successful in some things that were unexpected and in the world of non-profits you're not allowed to be too successful on some things revenue-wise.

(Lesley Patten, Every ASPECT Management)

The organization accepted that as a result of the transition to the business model, there would be implications for their tax treatment. Patten noted that with the for-profit structure, "you're taxed like a normal business... but that's the price you have to pay to be in the right legal system that we have right now."

These interview results suggest that social enterprises prefer to operate as a charity or non-profit, presumably because it is a familiar structure to the parent organization. The for-profit structure is viewed as a secondary stage, only considered once the social enterprise has grown and is well-established. There is little proactive effort on the part of practitioners to initially establish a social enterprise as a for-profit entity.

5.4. Summary of Key Findings

A number of key findings emerged from the interviews. These findings relate to (1) the business operations, (2) financing, and (3) legal framework of social enterprises.

- Both practitioners and intermediaries recognized the lack of business expertise among social enterprise practitioners as a challenge, although several of the social enterprises interviewed had employed a manager with a business background.
- Practitioners struggled to balance the business and social objectives of the social enterprise.
- There were varying opinions over the difficulty measuring the success of social enterprises.
- Demonstrating Value was considered to be a helpful tool to assist social enterprises in measuring the financial and social impacts of their business; however, some practitioners found the process to be challenging.
- Several social enterprise practitioners recognized that success was closely linked to their ability to provide a competitive product or service in the marketplace.
- The social enterprises interviewed typically accessed financing from their parent organization or grant providers, rather than traditional financial institutions. This was attributed to the lack of equity among social enterprises, as well as a culture within the non-profit sector that is familiar with funding their work through grants.
- Loans are a relatively untapped source of financing for social enterprises.
- Intermediaries and policymakers highlighted the need for social enterprises to be able to access the right type of financing at the appropriate time in their development.
- Of the ten social enterprises operated by the practitioners interviewed, nine were incorporated as a non-profit or charity and only one was a for-profit corporation. Many social enterprise practitioners interviewed were not concerned with the legal structure of social enterprises.
- Other practitioners recognized that their social enterprise may grow to the point where it is necessary to transition to a for-profit structure, with one social enterprise already completing this process.

6. Policy Options: Opportunities for Success

In addition to the status quo, this section outlines four policy options to address the challenges that are experienced by social enterprises. In line with the scope of this study, these options are targeted to the provincial government and have been identified and developed through an analysis of the literature and key informant interviews. The (1) goals, (2) necessary instruments for implementation, and (3) actors involved are presented for each option. This section concludes with an overview of one policy option that was considered, but not evaluated in this study.

6.1. Status Quo

The status quo is included as the basis upon which to compare the other potential initiatives. As outlined in section 2.1.2, social enterprises rely on the support of various intermediaries and foundations to grow. However, there is no on-going support targeted specifically to social enterprises on the part of the provincial government. The vast majority of social enterprise practitioners or intermediaries interviewed for this study had not received any support, financial or otherwise, from the government. Some social enterprises that employed persons with developmental disabilities were able to access government funding through Community Living BC. As well, some intermediary organizations obtained one-time contracts with the government. Overall, the status quo lacks a developed policy response for supporting social enterprise in the province.

6.2. Expand the Venture Capital Program Tax Credit¹⁸

This option extends the tax credit for the provincial Venture Capital Program (VCP) to investors of social enterprises. The goal of this policy option is to improve social enterprises' access to financing from private investors. The VCP is established under the *Small Business Venture Capital Act* and includes three sub-programs (Hellman & Schure, 2010).¹⁹ The VCP provides a 30% tax credit to individuals who make an equity investment in an eligible small business through a Venture Capital Corporation (VCC) or a direct equity investment in an Eligible Business Corporation (EBC) (BC Ministry of Jobs, Tourism and Innovation, n.d.). To be deemed an eligible small business or an EBC, a business must engage in at least one of five qualifying activities²⁰ and register under the VCP (BC Ministry of Jobs, Tourism and Innovation, n.d.). An individual can claim a maximum of \$60,000 in tax credits per year, which are refundable (Investment Capital Branch, n.d.). The BC Government's 2012 Budget announced an increase to the VCP tax credit budget from \$30 million to \$33 million (BC Liberals, 2011; Government of BC, 2012). This policy option specifies that this additional \$3 million in tax credits should be allocated for investments in social enterprises, which would incentivize up to \$10 million in financing for social enterprises.

Three administrative changes to the VCP are required to allow social enterprises to take part. First, non-profits and charities must be included as potential investees. Currently, only corporations are able to register as an eligible small business or EBC (BC Ministry of Jobs, Tourism and Innovation, n.d.). Second, social enterprise must be included as a qualifying activity for an EBC. This will require the government to develop

¹⁸ This policy option is based on a 2009 submission to the Minister of Finance by the Vancouver Foundation, Vancity Credit Union, BC SVP, ENP, YWCA, Renewal Partners, and PLAN calling for the creation of a Social Innovation Tax Credit.

¹⁹ The three sub-programs are Employee Venture Capital Corporations (EVCCs), Venture Capital Corporations (VCCs), and Eligible Business Corporations (EBCs).

²⁰ The five qualifying activities include: 1) Manufacturing, processing or export of value-added goods produced in BC; 2) Destination tourism; 3) Research and development of proprietary technology; 4) Development of interactive digital new media product; 5) Community diversification outside of the Lower Mainland and the Capital Region.

a definition of social enterprise.²¹ Third, because non-profits cannot issue equity shares, the government will have to permit debt investments in non-profit social enterprises to qualify for the tax credit. This could be achieved through equity investments by individuals into VCCs, which then provide debt investments to social enterprises. Resilient Capital could establish a VCC as a means to further its mandate. Alternatively, the government could allow exemptions for non-profit operated social enterprises to accept debt investments directly from individuals through a mechanism such as a registered community bond.

Canadian precedent exists for provincial governments to set up tax credits for investors in businesses that benefit the community. In April 2011, the Manitoba government introduced the Neighbourhoods Alive! Tax Credit for corporations that partner with a charitable organization to set up a social enterprise. The social enterprise must be owned by the registered charity, be related to the charity's purpose, and have a mandate to employ Manitobans facing barriers to the workforce (Manitoba Finance, 2011). Investments in the social enterprise are eligible for a 30% non-refundable corporation income tax credit, as well as a corporate donation deduction. The maximum tax credit that can be claimed per corporation is \$15,000, which is reached at a minimum donation of \$50,000 (Manitoba Finance, 2011). The corporation is also required to provide in-kind support by assisting the charity develop, manage and operate the social enterprise during the year in which it made the investment (Manitoba Finance, 2011).

In 1999, the government of Nova Scotia introduced Community Economic Development Investment Funds (CEDIFs) as an enhancement to the Equity Tax Credit. A CEDIF is "a pool of capital raised through the sale of shares that is invested in new or existing local businesses" with the intent of keeping investment dollars in the local community (Nova Scotia Economic and Rural Development, 2010). Investments in CEDIFs are eligible for a 35% non-refundable personal tax credit from the province and

²¹ The submission to the Minister of Finance proposed that the VCP consider a social enterprise to be a business that creates training or employment opportunities for persons with barriers to employment and/or provides a social or environmental service to the community.

are eligible as a Registered Retirement Savings Plan (RRSP) contribution (Nova Scotia Economic and Rural Development, 2010). Although not explicitly targeted to them, social enterprises are able to access financing through CEDIFs.²² The BC Ministry of Finance will be responsible for the implementation of this option. Table 4 summarizes the goal, necessary instruments for implementation, and actor involved for this option to be implemented in BC.

Table 4: Goals, Instruments, and Actors of Policy Option #2

Policy Option #2: Expanding the VCP Tax Credit to Social Enterprises	
Goal	<ul style="list-style-type: none"> • Improve social enterprises' access to financing from private investors
Instruments	<ul style="list-style-type: none"> • Allow non-profits to qualify as investees, include social enterprises as an eligible business, and permit debt investments • Define social enterprise to determine which ones would qualify
Actors	<ul style="list-style-type: none"> • BC Ministry of Finance

6.3. Government Financing: Granting Program and Investment in Resilient Capital

This option requires the establishment of a granting program by the provincial government, as well as a one-time investment in Resilient Capital. The goal of this policy option is to improve access to financing throughout the lifespan of a social enterprise. The intermediaries and policymakers interviewed identified a need for different types of financing to be available to social enterprises. These respondents emphasized the need to support social enterprises in obtaining equity and debt investments, but also recognized that grants may have an important role to play in the start-up phase, so that social enterprises are in a position to scale-up their business and sustain a loan. As such, this option addresses both these types of financing.

²² For example, New Dawn Holdings is a CEDIF that supports the social enterprise New Dawn Enterprises located in Cape Breton, Nova Scotia.

The first component of this option involves the provincial government establishing a two-year pilot program to provide grants to early-stage social enterprises. These grants are intended to support the capacity development of social enterprises and will range from \$10,000 to \$40,000.²³ The government should allocate a total of \$1 million over the two years. Depending on the size of the grants, this option will provide funding to anywhere from 25 to 100 social enterprises. This pilot program will be administered by the Ministry of Social Development or the Ministry of Jobs, Tourism and Innovation.

The second component of this option calls for the provincial government to invest \$4 million in the Resilient Capital program.²⁴ This will increase the availability of patient capital²⁵ to social enterprises in the province. As a term deposit, the government is able to earn a fixed rate of interest to be paid out when the investment matures. It would be advisable, however, for the provincial government to make the investment permanent so that the funds can be reused over the long-term to support social enterprises in the province. The Government of Quebec made a similar commitment when it invested \$10 million in the Chantier de l'économie sociale Trust, which provides patient capital to social economy enterprises (Quarter, Mook, & Armstrong, 2009).²⁶ The actors involved in this component of the policy option include Vancity and the Vancouver Foundation who operate the Resilient Capital Program. Table 5 summarizes the goal, necessary instruments for implementation, and actors involved for this option.

²³ This was estimated using the range of Vancity's grants through the Social Enterprise Portfolio Program (\$5,000 - \$50,000) and BCSVP grants (\$30,000 per year prior to 2012). In addition, two of the social enterprise practitioners interviewed had received \$20,000 from the parent organization to start the social enterprise.

²⁴ This amount would bring the Resilient Capital Program to \$14.35 million, just short of its \$15 million target.

²⁵ Patient capital refers to "capital that is offered over the longer-term with no or heavily discounted short-term repayments. It can be structured as a loan or equity" (Thake, 2004, p. 28).

²⁶ The Chantier Trust offers two types of investments, operations patient capital and real estate patient capital, which range from \$50,000 to \$1.5 million (Canada Economic Development, 2009).

Table 5: Goals, Instruments, and Actors of Policy Option #3

Policy Option #3: Granting Program and Investment in Resilient Capital	
Goal	<ul style="list-style-type: none"> To improve access to financing throughout the lifespan of a social enterprise
Instruments	<ul style="list-style-type: none"> Two-year pilot program to provide grants to early-stage social enterprises One-time \$4 million investment in Resilient Capital
Actors	<ul style="list-style-type: none"> Ministry of Social Development or Ministry of Jobs, Tourism and Innovation Vancouver Foundation Vancity Credit Union

6.4. Provide Services Through Small Business BC

This option calls for the provincial government to provide business services to social enterprises through Small Business BC. This involves building awareness of social enterprises and developing the capacity of the organization to assist social enterprises. The goal of this policy option is to improve business-related resources available to social enterprise practitioners.

Small Business BC is a resource centre for small businesses in the province. It provides products and services to assist small businesses enter the market, develop, and become more productive and profitable. Small Business BC’s core activities are funded by the BC Ministry of Jobs, Tourism and Innovation and Western Economic Diversification Canada (Small Business BC, 2011). This established resource centre has the potential to be a key supporter of social enterprises in BC, which are predominantly small businesses.

In many ways the current resources and services offered by Small Business BC are applicable to social enterprises. This includes assistance in formulating a business plan, market research indicators, and website support. As noted by Dr. Peter Elson (Interview, 01/12/12), Small Business BC has “a huge pool of expertise that could be brought to bear on social enterprises, at a very marginal cost.” On Small Business BC’s website, however, it is unclear whether social enterprises or non-profits are included in

the organization's client base. This serves to limit the likelihood of a social enterprise reaching out to Small Business BC for assistance.

In order to make social enterprise practitioners more aware of Small Business BC's services, it is important for Small Business BC's website and promotional material to be clear that it provides support to social enterprises. As well, Small Business BC should engage with intermediaries providing services to social enterprises to cultivate a greater connection with the wider social enterprise sector.

This option requires providing funding to hire one additional staff member who will specialize in assisting social enterprises and the creation of a few additional resources tailored specifically to social enterprises. This will be achieved by increasing the funding that the Ministry of Jobs, Tourism and Innovation provides to Small Business BC. There will also be a learning curve for the current employees of Small Business BC in becoming familiar with the particular aspects of the creation, execution, and measurement of blended-value businesses as opposed to a typical business model. For example, non-profit social enterprises have a significantly different governance structure, generally with a Board of Directors, than a traditional small business. It is important for Small Business BC to have an understanding of the distinctions between social enterprises and other small business as this might affect the advice provided. This may involve incorporating social objectives into the marketing of a business. There are also unique sources of financing for social enterprises, such as Resilient Capital or BCSVP that Small Business BC will need to be aware of in order to refer their clients. Table 6 summarizes the goal, necessary instruments for implementation, and actors involved for this option.

Table 6: Goals, Instruments, and Actors of Policy Option #4

Policy Option #4: Changes to Small Business BC	
Goal	<ul style="list-style-type: none"> • Improve business-related resources available to social enterprise practitioners
Instruments	<ul style="list-style-type: none"> • Build awareness and understanding of social enterprises at Small Business BC • Create additional resources specific to social enterprises • Engage with social enterprise practitioners and intermediaries.
Actors	<ul style="list-style-type: none"> • Small Business BC • Ministry of Jobs, Tourism and Innovation

6.5. Create Community Contribution Companies (CCCs)

This policy option proposes to establish a new hybrid corporate structure for social enterprises in BC by amending the *Business Corporations Act* (BCA) and is based on the Community Interest Companies (CICs) found in the United Kingdom. The goal of this policy option is to provide a flexible corporate structure for social enterprises. A CIC is a for-profit company formed with the purpose of creating benefit for the community. To qualify as a CIC, the company must submit a community interest statement to the Regulator²⁷ outlining how their activities will benefit the community (Bridge & Corriveau, 2009). Because a CIC is a for-profit structure, it has fewer regulations with which to comply, but does not receive the same tax advantages as a charity (Carter & Man, 2009). The key features of the CIC model are a cap on dividends paid to shareholders and an asset lock requiring the CIC's assets and profits to be permanently retained by the CIC or transferred to a charity (Bridge & Corriveau, 2009).

The provincial government launched a public consultation on the possibility of introducing CICs to BC in 2010. If the government to approved the CIC model, it would

²⁷ The Regulator is an independent official who approves CIC applications, ensures compliance to legal requirements and raises awareness of the CIC model. The Office of the Regulator provides administrative support to the Regulator in fulfilling its functions.

make BC the first jurisdiction in Canada to offer a hybrid corporate structure for social enterprises. Two representatives from the BC Ministry of Finance were interviewed regarding the status of the public consultation on this new corporate structure. While the representatives could not confirm when or whether legislation was going to be implemented, they were able to provide insight on how the BC Ministry of Finance has envisioned the CIC model for BC. Because there are some key distinctions between the UK model and the one being considered by BC, the representatives from the Ministry of Finance, Gordon Hogg, and the Advisory Council on Social Entrepreneurship, have all referred to the potential BC model as Community Contribution Companies (CCCs).

Because what we are looking at is a model that is similar, but somewhat different than the UK CIC, it probably does make sense to have a slightly different name (Interview, Ministry of Finance Representative #2, 01/16/12).

The CCC model would be a for-profit corporation embedded in the BCA. It differs from a CIC in that there will be no Regulator to set the cap on dividends or to monitor the actions of CCCs. Rather, the cap on dividends will be set by regulations that accompany the legislation. As well, the CCC model will include enhanced accountability measures when compared to other companies. According to the Ministry of Finance representatives, this could include requirements similar to CICs such as having three directors, public financial statements, and annual reports on community activities.

For the BC model, the Ministry of Finance is also considering a less restrictive cap on dividends than the CIC model, which has an overall cap, as well as a per share cap. One of the representatives explained the dilemma in setting the cap, noting it cannot be too restrictive as to discourage investments.

The devil's in the details and there are a lot of details to be resolved because the tension here is if you're going to allow for a hybrid and you're going to let people have a brand of a Community Interest Company, you want to have some legitimacy to the brand so they're not paying all their profits out to themselves. On the other hand, you want to enable some kind of worthwhile return in order to stimulate investment. (Interview, Ministry of Finance Representative #1, 01/16/12)

As such, the CCC model will likely only have a cap on dividends paid out on the overall profits of the company. The actors involved in this option include the Ministry of Finance

in the drafting of the legislation and the BC Registry Services in updating their services to include CCCs in their registry options. Table 7 summarizes the goal, necessary instruments for implementation, and actors involved for this option.

Table 7: Goals, Instruments, and Actors of Policy Option #5

Policy Option #5: Creating Community Contribution Companies	
Goal	<ul style="list-style-type: none"> • Provide a flexible corporate structure for social enterprises
Instruments	<ul style="list-style-type: none"> • Amend the <i>Business Corporations Act</i> • Update registration process to include CCCs
Actors	<ul style="list-style-type: none"> • Ministry of Finance • BC Registry Services

6.6. Policy Option Considered But Not Evaluated

6.6.1. Increase the \$500 Earnings Exemption for Persons with Disabilities²⁸

One policy option that emerged from the interviews with social enterprise practitioners is to increase or scale the \$500 earnings exemption for Persons with Disabilities (PWD) and Persons with Persistent Multiple Barriers (PPMB). Under the existing system, PWD and PPMB beneficiaries are permitted to earn up to \$500 per month in addition to their benefits, after which earnings are subject to a 100% clawback rate (Ministry of Social Development, 2008; Feres, 2007). This means that for every dollar earned over \$500, one dollar is reduced from the benefits.

Feres (2007) found the \$500 earnings served as a disincentive to work for social enterprise employees. This finding was echoed by some of the social enterprise practitioners employing persons with disabilities.

²⁸ For a more in-depth analysis of the effect of the earnings exemption on social enterprises see Feres (2007).

Unfortunately, government hasn't had the vision to uplift the earnings exemption. That can also be a stumbling block for social enterprise because as your business starts to grow, you need to have more employees or employees working more hours. It's really difficult for marginalized populations and for people on income assistance to understand that it's a good thing to become independent and to earn more. They really struggle with that and they don't want to work more hours than that 500 dollar limit (Interview, Melanie Frantino, 11/07/11).

There's a huge incentive not to go past that limit because any dollar that you [earn] is all gone... You've effectively locked them in there (Sam Berthoud, 11/07/11).

Another factor related to the earnings exemption is the security that PWD/PPMB benefits provide to social enterprise employees (Feres, 2007). Because the severity of some mental illnesses and disabilities tend to be cyclical, the number of hours that PWD and PPMB recipients can work may vary month to month. Therefore, in some months a PWD recipient may work enough hours to surpass the earnings exemption amount, while in other months they may be very reliant on the benefits (Feres, 2007).

The interviewees suggested that the earnings exemption be raised to a higher limit or that the clawback become more gradual. In responding to the effect of the earnings exemption on social enterprises, one participant from the ISIS Research Centre commented:

[W]hether it's a tiered system, it just needs to be more flexible because people need to be motivated to keep on working rather than be punished for working (Interview, Joanna Buczkowska-McCumber, 11/30/11).

This policy option has important implications for social enterprises that employ PWD or PPPMB beneficiaries. However, because increasing the earnings exemption is not specifically targeted to social enterprises it will not be evaluated in this study.

7. Evaluation Framework

The policy alternatives will be evaluated on the basis of four criteria: cost, effectiveness, political feasibility, and administrative ease. Each criterion is measured using a five-point scale. The score of each policy option is totalled and compared to the maximum score of 20 points. The criteria were not weighted as each criterion provides equally important and distinct considerations in its own right. There is, however, interplay between the criteria in certain cases. In particular, an option that is expensive is less likely to be politically feasible. This section provides a description of the criteria and measures used to evaluate the policy options.

7.1. Cost

The 2012 BC Budget emphasized that fiscal discipline is central to the provincial government's agenda (Government of BC, 2012). As such, cost will be a major consideration in the future policy decisions made by the province. This criterion estimates each option's level of direct financial cost to the Government of BC, over and above current spending levels. Cost will be evaluated using a scale inverse from the other criteria, meaning a low cost will be assigned 5 points and a high cost will be assigned 1 point. An option will be considered 'low' cost if it requires no additional government spending. An option will be considered to be 'high' cost if it requires a level of new government spending that is significantly above current expenditures. Cost will be evaluated using key informant interviews and secondary sources.

7.2. Effectiveness

Effectiveness measures the degree to which the option meets the intended policy objective. This study has three policy objectives, and each policy option seeks to

address one of these objectives. The objectives are to 1) improve the level of business supports available to social enterprise practitioners; 2) increase social enterprises' ability to access financing; and 3) clarify the legal framework surrounding social enterprise. Because each policy option is only intended to target one of the policy objectives, it will be evaluated solely on its effectiveness in meeting that one objective. A 'low' level of effectiveness indicates that the policy option results in minimal progress in achieving the desired objective, while a 'high' level of effectiveness implies significant progress in meeting the intended objective. The effectiveness of each option will be gauged using key informant interviews and secondary sources.

7.3. Political Feasibility

Political feasibility measures the level of support for the policy option among provincial decision-makers. While policy decisions should be based on the objective merits of each option, it is extremely unlikely that a policy will be adopted without political support. As such it is necessary to consider the political feasibility of the options. The level of political support for an option can be influenced by various factors including: political ideology; existing government priorities; financial cost; and the potential public acceptability. A 'low' level of political feasibility implies that the policy option has little support from decision-makers, while a 'high' level suggests there is significant support for the option from decision-makers. Political feasibility will be evaluated using the key informant interviews with policymakers, which includes the Parliamentary Secretary for Non-Profit Partnerships, members of the public service, and the co-Chair of the Advisory Council on Social Entrepreneurship, as well as secondary sources regarding government priorities.

7.4. Administrative Ease

Administrative ease examines the complexity of a given option in regard to its implementation and maintenance. The factors considered in evaluating this criterion include legislative changes, additional human resources (e.g. new employees or employee training), new administrative tools, level of co-ordination between actors, and

updates to computer software. An option will be considered to have a ‘low’ level of administrative ease if it requires significant changes to the existing administrative system and a ‘high’ level of administrative ease if the policy option can be implemented within the existing administrative system. Administrative ease will be assessed using information from the interviews conducted for this study.

Table 8: Criteria for the Assessment of Policy Options

Criterion	Definition	Measurement (Scale of 1 to 5)
Cost	Level of direct government spending on the policy option, over and above the status quo	<p>Low (5) – The policy option requires no additional government spending</p> <p>Medium (3) – The policy option requires a moderate level of new government spending that could fit within the government’s budget</p> <p>High (1) – The policy option requires a high level of new government spending that is significantly above the province’s current budget constraint</p>
Effectiveness	The degree to which the option meets the intended policy objective	<p>Low (1) – The policy option achieves limited progress in meeting the intended objective</p> <p>Medium (3) – The policy option achieves moderate progress in meeting the intended objective</p> <p>High (5) – The policy option achieves significant progress in meeting the intended objective</p>
Political Feasibility	The level of support for the option from policymakers	<p>Low (1) – The policy option has little support from government decision-makers</p> <p>Medium (3) – The policy option has some support from government decision-makers</p> <p>High (5) – The policy option has significant support from government decision-makers</p>
Administrative Ease	The complexity to implement and maintain the option	<p>Low (1) – The policy option requires significant changes to the existing administrative system</p> <p>Medium (3) – The policy option requires minor changes to the existing administrative system</p> <p>High (5) – The policy option can be implemented within the existing administrative system</p>

8. Assessment of Policy Options

This section evaluates each of the five policy options using the framework of criteria and measures outlined in section 7. Information gathered from the interviews and secondary sources are used for the evaluation of the policy options. Results of the assessment are presented in Table 9.

8.1. Evaluation of Policy Option #1: Status Quo

Cost: Low (5 points)

The cost of the status quo is evaluated as 'low' because it requires no additional funding.

Effectiveness: Low (1 point)

The effectiveness of the status quo is assessed as 'low' as there are no targeted government programs for social enterprises in the province. As such, there are no initiatives that address any of the policy objectives of this study.

Political Feasibility: Low (1 point)

Based on the recent action of the government, including the appointment of the Advisory Council on Social Entrepreneurship, the CIC public consultation, and the Non-Profit Partnerships Summit, the status quo scores 'low' on political feasibility. These examples indicate the government is poised to promote social innovation in the province, particularly with respect to social enterprise and social finance.

Administrative Ease: High (5 points)

The administrative ease of the status quo is evaluated as 'high' because this policy option exists within the government's current administrative system.

8.2. Evaluation of Policy Option #2: Expand the Venture Capital Program Tax Credit

Cost: Low-Medium (4 points)

The cost of expanding the venture capital tax credit is evaluated as 'low-medium'. The cost of a tax credit is measured by the resulting lost revenue to the government. One of the cost advantages to offering a social enterprise tax credit through the Venture Capital Program (VCP) is that it has a budget that is capped, providing a predictable cost to the government. In the case of the proposed tax credit, the provincial government has already announced that the budget for the VCP will be increased to \$33 million the coming year. By recommending that this additional \$3 million be allocated to investments in social enterprises, this option does not increase the total cost of the VCP.

In addition, David LePage noted that due to the recession, the cap for the VCP tax credit has not been hit in recent years (Interview, David LePage, 12/01/11). The \$30 million in VCP tax credits is able to leverage a maximum of \$100 million in investments. Figures provided by the Ministry of Jobs, Tourism and Innovation (personal communication, 02/01/12) demonstrate that \$90.14 million was leveraged in 2008, \$83.91 million was leveraged in 2009, and \$76.99 million was leveraged in 2010. Evidently, there is room in the VCP budget to include social enterprises. As a result, extending the VCP tax credits to investments in social enterprises is effectively cost-neutral given the government's current budget. There will be, however, some minor costs associated with researching and implementing the administrative adjustments to the program.

Effectiveness: Medium (3 points)

This option intends to address the policy objective of increasing social enterprises' ability to access financing. In meeting this objective, the option ranks 'medium' for effectiveness.

The VCP tax credit offers an incentive for both the demand and supply of social enterprise financing. On the demand side, social enterprises will be more open to make the culture shift necessary to obtain debt investments if it is offered through patient

capital, which provides them with a more lenient timeframe to pay back the investment. On the supply side, the tax credit incentivizes investors to consider investing in social enterprises, which are riskier investments that offer lower levels of financial return than traditional businesses. The policymakers interviewed stressed the effect that a tax credit will have on potential investors in social enterprise.

[Tax credits] reduce the base costs of an individual's investment so that the rate of return gets magnified. So if you get a 30% tax credit and you're making 10 cents on the investment dollar, now you're making 10 cents on 70 cents. So you're making 14% instead of 10%. Because you're getting a higher [rate of] return, you can tolerate a higher level of risk. (Interview, Andrew Wharton, 11/29/11).

The simple fact is that it adds a 30% tax credit. When you're raising money, that's a really major incentive, especially when you're looking at a blended value proposition... The rate of return, if and when it happens, would tend to be lower. This gives an immediate incentive, so it's very critical from that point of view (Interview, Al Etmanski, 01/24/12).

Intermediaries interviewed were also supportive of tax credits as an effective means to improve the financing available to social enterprises.

The effectiveness of this option is limited by the fact that it is largely dependent on the creation of a new VCC or the increased use of community bonds which are not commonly used by the non-profit sector. While Resilient Capital could potentially operate a new VCC, there is no indication that this will occur. In the case of community bonds, it will take time for the sector and investors to become familiar with this new tool at their disposal. However, once investors and social enterprises become comfortable with VCCs and community bonds, tax credits will enable social enterprises to leverage money from the private sector.

Another limiting factor of the effectiveness of VCP tax credit option is that it only addresses access to debt financing, which is most helpful once a social enterprise has already been established. This option will be less effective for early-stage social enterprises, which benefit more from grants.

Political Feasibility: Medium-High (4 points)

The political feasibility of this option is 'medium-high'. This option has the support of the Parliamentary Secretary for Non-Profit Partnerships. Gordon Hogg has proposed changes to the *Venture Capital Act* to include "social, environmental, and health programs" (Interview, Gordon Hogg, 01/18/12). This proposal will be included in the review of the tax modelling system currently being conducted by the Ministry of Finance (Interview, Gordon Hogg, 01/18/12). Furthermore, the creation of a Social Innovation Tax Credit is one of the draft recommendations made by the Advisory Council on Social Entrepreneurship. The Advisory Council suggests that "this could be achieved by simply extending the existing tax credit regime to include social enterprises as a new eligible category" (BC Advisory Council on Social Entrepreneurship, 2011, p. 19). Consequently, exploring the potential of a tax credit for social enterprises is on the government's agenda.

Administrative Ease: Medium (3 points)

The administrative ease of extending the VCP tax credit ranks as 'medium'. One distinct advantage of the proposed policy is that it fits within an existing tax credit program. This supports administrative ease because it does not require the creation of a new piece of legislation. In addition, the implementation of this option is relatively streamlined as it involves only the Ministry of Finance.

The administrative ease is complicated by the three changes that will have to be made to enable social enterprises, operated by non-profit organizations, to be eligible. This includes: designating non-profits as potential investees; permitting social enterprise to be a qualifying activity of an eligible small business/EBC; and allowing debt investments in non-profits, as opposed to equity investments.

8.3. Evaluation of Policy Option #3: Government Financing

Cost: High (1 point)

The cost of the government financing policy option is 'high'. The total cost of this option is \$5 million; \$1 million for the two-year granting pilot program and \$4 million to be invested in Resilient Capital. There will also likely be additional incidental costs for administering the pilot program. This money is not currently budgeted for by the government. The investment in Resilient Capital will be a one-time cost, while the granting pilot program, if successful, will result in an ongoing annual cost of \$500,000 to the government's budget.

Effectiveness: High (5 points)

This policy option aims to address the objective of increasing social enterprises' ability to access financing. The effectiveness is evaluated as 'high' for this initiative.

This policy not only addresses the need for an increased supply of financing available to social enterprises, but also supports different types of financing. The granting program will provide early-stage social enterprises with another option to access grants so that they can establish their business before seeking to sustain a debt or equity investment. With the additional \$4 million, Resilient Capital will be able to offer a higher number of loans and equity investments to social enterprises to help them grow. Overall, this option increases social enterprises' ability to access financing at each stage of their development.

Political Feasibility: Low-Medium (2 points)

The political feasibility of government financing is 'low-medium'. This option is feasible given that the government has invested in Resilient Capital in the past, providing \$2.2 million in seed funding. As well, Gordon Hogg noted that in general, "one of the ways that government needs to support this whole initiative is by putting more dollars into it" (Interview, Gordon Hogg, 01/18/12). However, there was some skepticism as to whether further investment in Resilient Capital was realistic.

The government is not going to put more money in [Resilient Capital] again. I'm not the politician, but it's very unlikely because the purpose there was to show that a fund could work (Interview, Andrew Wharton, 11/29/11).

This suggests that while the government contributed to the creation of the fund, the direct financing of social enterprises is meant to come from the private or community sector.

This option's political feasibility is reduced because its cost is significantly above the government's current budget. The government has a fixed level of financing resources, so funds will have to be diverted from other areas of government spending in order for the government to allocate \$5 million to financing social enterprises. This will likely diminish political support for this option from other MLAs.

Administrative Ease: Medium (3 points)

The administrative ease of the government financing policy option is 'medium'. The first component of this policy option is the most administratively complex as it requires the creation of a new granting program. It will have to be determined whether this program is administered by the Ministry of Social Development or the Ministry of Jobs, Tourism and Innovation. Staff will have to be assigned to outline the application process, set criteria for grant recipients, and administer the loans. After the pilot program concludes, an evaluation will have to be conducted to determine the effectiveness of the grants in supporting social enterprises.

The second component of this policy option – investing in Resilient Capital – will be administratively simple for the government. This program is already established and Vancity has the responsibility for administering the funds. The government only needs to approve the transfer of the funds.

8.4. Evaluation of Policy Option #4: Provide Services Through Small Business BC

Cost: Low-Medium (4 points)

The cost of this policy option is 'low-medium'. The cost is minimized because Small Business BC and most of the services that will assist social enterprises are already in place. But while Small Business BC receives a significant portion of its funding from the province, it is not a government agency. Therefore, the province will have to tie some funding to social entrepreneurship services to incentivize Small Business BC to become more accessible to social enterprises. The most significant cost will be the addition of a staff member. In addition, there will be some minor costs associated with building awareness of social enterprises among the staff of Small Business BC and creating resources specific to social enterprises.

Effectiveness: Medium-High (4 points)

The policy objective that this option intends to address is to improve the level of business-related supports available to social enterprise practitioners. In meeting this objective, this policy option is evaluated as 'medium-high'. This policy option improves the access to business supports by social enterprises simply by encouraging Small Business BC to engage with the social enterprise sector and intermediaries. Furthermore, with the addition of a staff member dedicated to assisting social enterprise practitioners and new resources targeted specifically to social enterprises, Small Business BC will be a meaningful partner for social enterprises in developing business capacity.

When asked about this policy option, two interviewees noted the successful contribution of ENP in developing the business skills of social enterprise practitioners in the province. While ENP has contributed to building business skills among social enterprise practitioners, the organization has limited resources. There is still a role for government to provide business supports for social enterprises. The need for additional business services for social enterprises was confirmed by David LePage, the Program Manager of ENP, who was very supportive of this policy option and its potential benefits for BC social enterprises.

Political Feasibility: Medium (3 points)

The political feasibility of this policy option is 'medium'. Providing services to social enterprises through Small Business BC is not a contentious proposal. It is a low-cost option that does not require diverting resources away from another program. This option also supports social innovation in the province, which the Premier has identified as a priority of the government (Clark, 2011).

One aspect that limits the political feasibility of this option is that it is not currently on the government's agenda. The draft recommendations of the BC Advisory Council on Social Entrepreneurship do not address the limited business expertise of social enterprise practitioners. Gordon Hogg's reaction to involving Small Business BC in providing business supports to social enterprises was that it was "a very good idea, not one I've thought of, but I think something that would be worthy of looking at being able to expand [social enterprise] into it" (Interview, Gordon Hogg, 01/18/12).²⁹

Administrative Ease: Medium-High (4 points)

The administrative ease of the Small Business BC option is assessed as 'medium-high'. A key advantage to this policy option is that Small Business BC is an already existing provincial resource centre for small businesses in BC. This means that the framework and many of the resources for providing business support to social enterprises are already in place. There is also very little co-ordination necessary to administer this option. Funding would be funneled through the Ministry of Jobs, Tourism and Innovation, and services would be provided through Small Business BC.

One factor that complicates the implementation of this option is that Small Business BC is an independent organization. While the provincial government funds Small Business BC, it does not set the organization's agenda. The additional provincial

²⁹ The limited attention paid to supporting business expertise by the government may be a result of the fact that intermediaries, particularly ENP, are considered to be providing this service to social enterprises in the province.

funding to cover the costs of providing services to social enterprises, however, will encourage Small Business BC to implement this policy option. As well, assisting social enterprises is in line with the organization's mandate of providing resources to small businesses in the province.

Building awareness and understanding of social enterprise at Small Business BC is relatively administratively simple. This will involve holding an information session or creating an information package for employees to learn the basics of social enterprises and how they differ from traditional small businesses. The organization will also need to hire one additional staff member to specialize in resources offered to social enterprises.

Engaging with social enterprise practitioners can be largely achieved by updating Small Business BC's website to reflect the inclusion of social enterprises in the client base of the organization. Reaching out to the intermediaries providing support to social enterprises via phone or email to make them aware of the resources available to social enterprises at Small Business BC will also be administratively simple.

8.5. Evaluation of Policy Option #5: Create Community Contribution Companies

Cost: Low-Medium (4 points)

The cost of introducing CCCs to the province is evaluated as 'low-medium'. Representatives from the Ministry of Finance noted that the majority of the costs associated with implementing CCCs are upfront. This includes the cost of developing the model for the BC context and the cost of updating the computer system registry to accommodate the new model in the filing system (Interview, Ministry of Finance Representative #1, 01/16/12). The fact that the CCC model will not include a Regulator or the accompanying administration to oversee the companies also serves to minimize the cost of this option.

Effectiveness: Low-Medium (2 points)

The policy objective that the creation of CCCs intends to address is to clarify the legal framework surrounding social enterprise. This policy option is assessed as 'low-medium' in addressing this objective.

Overall, the ability of the provincial government to address the legal ambiguity that surrounds social enterprises is constrained due to the fact that the federal government has the ultimate decision-making power over the legality of non-profits earning revenue.³⁰ Stacey Corriveau (Interview, 11/23/11) stated very clearly that "at the end of the day the federal *Income Tax Act* trumps all".

The creation of CCCs is one way that the provincial government can provide some clarity over the legality of social enterprises; however, the potential reach of this policy option is debatable.

We want to build a framework that people are going to use, but we have no guarantee going into it what the take-up would be (Interview, Ministry of Finance Representative #2, 01/16/12).

The thematic analysis revealed that many of the practitioners interviewed were not particularly concerned by the legal ambiguity surrounding social enterprise, suggesting that the take-up of a new structure may be low. In addition, the transition from an existing social enterprise to a CCC will require a significant culture shift. The CCC is a for-profit model, whereas the vast majority of social enterprises in BC are non-profit organizations (Elson & Hall, 2010). In order to become a CCC, an existing non-profit social enterprise will have to become a separate entity of the non-profit organization. This could lead to hesitation on the part of existing social enterprises to take advantage of this new structure because of what the transition entails, such as the loss of tax-

³⁰ "Legislation in Ontario acknowledges that the federal Income Tax Act supersedes provincial legislation in the area of income tax exemption" (Canadian Task Force on Social Finance, 2011, p. 10).

exempt status. The interviewees did suggest that there may be some take-up by select existing social enterprises.

This type of legislation is really seen by progressive organizations as a real opportunity for them to be able to deliver the services that they want to deliver in a much less constrained fashion (Interview, Gordon Hogg, (01/18/12).

The existing social enterprises that continue to operate under their current corporate form will not benefit from any clarification over their legal status of earning revenue from this option.

While the new CCC model is unlikely to be effective at clarifying the legal status of existing social enterprises, the potential take-up of this new corporate structure is greater for newer social enterprises. This was acknowledged by the representatives from the Ministry of Finance. Others viewed this model as particularly attractive to younger social entrepreneurs who prefer more flexibility in operating a social enterprise (Interview, Andrew Wharton, 11/29/11).

Some of the interviewees considered the creation of CCCs to have intangible benefits for social enterprises. CCCs provide social enterprises with a recognizable brand that customers can connect to community benefit. As well, by establishing CCCs the government provides a sense of legitimacy for social enterprises.

I think there is a major, major psychological contribution that the Community Contribution Companies can make... They're going to send a signal to the Boards of Directors and to senior staff in non-profits that they can move into this new territory. (Interview, Al Etmanski, 01/24/12)

Over time, as more social enterprises become familiar with the model, the effectiveness of introducing CCCs will likely improve. Initially, however, the ability of the new corporate structure to clarify the legal ambiguity of existing social enterprises in BC is limited.

Political Feasibility: High (5 points)

The political feasibility of establishing the CCC corporate model in BC ranks as 'high'. This option is very much on the government's agenda considering the government has already completed a public consultation and the Premier expressed her support for

CCCs. Gordon Hogg explained that the province is well into the process of introducing the CCC.

We have the draft legislation done... I'm hopeful that, depending upon the legislative agenda for this spring, we may well be able to get it in this year. (Interview, Gordon Hogg, (01/18/12).

As such, there is a strong likelihood that the CCC structure will be introduced to BC in the coming months.

Administrative Ease: Medium (3 points)

The administrative ease of creating CCCs in BC is evaluated as 'medium'. The CCC model will be established under existing legislation, which facilitates the implementation of this option. Additionally, the only actor involved in the implementation of this option is the Ministry of Finance. However, given that the CCC is a brand new corporate structure, it will require a relatively extensive amendment to the legislation. The process of developing this legislation will require a significant investment of time on the part of Ministry of Finance employees and may also involve consultations.

Table 9 provides a summary of the assessment of policy options.

Table 9: Summary of Assessment of Policy Options

	Status Quo	VCP Tax Credit	Government Financing	Small Business BC	Community Contribution Companies
Cost	Low (5)	Low-Medium (4)	High (1)	Low-Medium (4)	Low-Medium (4)
Effectiveness	Low (1)	Medium (3)	High (5)	Medium-High (4)	Low-Medium (2)
Political Feasibility	Low (1)	Medium-High (4)	Low-Medium (2)	Medium (3)	High (5)
Administrative Ease	High (5)	Medium (3)	Medium (3)	Medium-High (4)	Medium (3)
TOTAL	12/20	14/20	11/20	15/20	14/20

9. Recommendation

Given the many challenges facing social enterprises, there is no single policy that will comprehensively achieve the policy goal of supporting the growth and development of social enterprise in BC. Following the evaluation of the policy options, it is recommended that the provincial government adopt a combination of initiatives to support social enterprises to reach their potential. This includes the three highest scored options: extending the VCP tax credit, providing services through Small Business BC, and the creation of the CCC corporate structure. Each of these policies addresses one of the challenges uncovered in the literature review and interviews.

To increase the ability of social enterprises to access financing, it is recommended that the provincial government extend the VCP tax credit to investments in social enterprises. This will serve to incentivize and leverage private investment dollars to the social enterprise sector enabling them to expand their business. This option also follows in the footsteps of Manitoba and Nova Scotia in offering tax credits to assist social enterprises. Once the administrative details of including social enterprises in the VCP tax credit are resolved, the potential effectiveness of this option will significantly increase.

To improve the business supports available to social enterprise practitioners, it is recommended that the government provide services through Small Business BC. This option is relatively low cost and administratively simple given that Small Business BC is an existing organization with a mandate to provide business resources to small businesses in the province.

To clarify the legal framework surrounding social enterprises in BC, the government should amend the BCA to include CCCs. The effectiveness of this option is fairly low because it is the federal government that has control over the tax exempt status of organizations. Typically, an option that scores lower on effectiveness would not

be recommended. However, CCCs are a politically feasible, low-cost option, whose administrative costs associated with developing legislation have largely already been incurred. Therefore, the government should proceed with this option. While the initial take-up will likely be low, the Ministry of Finance representatives noted that there are other corporate structures in BC legislation with low take-up rates, such as Unlimited Liability Companies (Interview, Ministry of Finance Representative #1, 01/18/12). CCCs provide a viable corporate structure for certain social enterprises, as well as signals that the provincial government considers social enterprise to be a legitimate business model. Over time, as organizations and individuals become more familiar with the new model, the take up of CCCs is likely to increase. The CCC structure may also serve to attract members of the business community to become involved with social enterprises, as they are more comfortable operating with the flexibility of a for-profit entity.

These three options are recommended because they provide a well-rounded strategy, each targeting one of the policy objectives that contribute to the overall policy goal of supporting the growth and development of social enterprises in the province. It is feasible to recommend all three options because they are relatively low-cost, which is a priority given the current fiscal environment in the province. By addressing three of the major challenges in tandem, the government will facilitate social enterprises in creating benefits for individuals, the non-profit sector, and communities.

10. Conclusion

Social enterprises are emerging in British Columbia as a means to assist marginalized members of society and to further the sustainability of the non-profit sector. The provincial government currently lacks a concerted and targeted strategy to support social enterprises in maximizing their potential. That being said, the Government of BC has recently demonstrated a political appetite to explore the role of social enterprises in the province.

This study sought to explore two research questions regarding the major challenges experienced by social enterprises and the potential opportunities for the provincial government to address these barriers. Using semi-structured interviews with practitioners, intermediaries, academics, and policymakers, the study uncovered a variety of challenges for social enterprises related to business operations, accessing financing, and legal ambiguity. A range of policy options to address these challenges was formulated and evaluated against a set of four criteria: cost, effectiveness, political feasibility, and administrative ease. Following the evaluation, it was recommended that the provincial government extend the Venture Capital Program tax credits to investments in social enterprises, provide business support to social enterprises through Small Business BC, and introduce a Community Contribution Company corporate structure.

The success of social enterprises in BC will increase with the presence of a supportive policy environment. By implementing the three recommended options, the government will facilitate social enterprises in overcoming the major challenges they experience, leading to greater positive outcomes for the province of BC.

10.1.Limitations of This Study

The scope of this study focused on providing recommendations solely to the Government of BC. This is a limitation because the federal government is also an

important actor in the provision of support to social enterprises. Their role in clarifying the legal ambiguity surrounding social enterprise was alluded to in the evaluation. The way in which the federal *Income Tax Act* is interpreted regarding the earned income of non-profits and charities has significant implications for social enterprises. Additionally, the federal government could assume a role in providing financing or business support to social enterprises in BC through Western Economic Diversification Canada or Human Resources and Skills Development Canada.

Another limitation of this study is that only practitioners currently operating a social enterprise were interviewed. This does not account for the challenges experienced by practitioners who were unsuccessful at setting up a social enterprise or those who had to end operations of a social enterprise because it was not viable. Interviews with these practitioners may have uncovered different challenges or suggested alternative policy options. It was unfeasible for this study to access these practitioners as their identities could not be determined.

10.2. Considerations for Further Study

Social enterprise is an emerging topic of study in Canada. This study provided a qualitative analysis of the challenges experienced by social enterprises. Further research should quantitatively explore the presence of social enterprise in Canada. While there have been recently completed quantitative studies measuring social enterprises in BC, Alberta, and Ontario, there is a need for this type of research to be conducted in the remaining provinces. This will provide a greater understanding of size of the social enterprise sector in Canada, which will enable more informed policy decisions to be made. Another area of further study is the role of the federal government in supporting social enterprises. This study has provided recommendations for the provincial government; however, the federal government also has the capacity to address the challenges experienced by social enterprises. Specific policy recommendations for the federal government would be a beneficial addition to the social enterprise literature.

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Appendices

Appendix A: Examples of Canadian Social Enterprises

Income-Generating Social Enterprises

1. Me to We

Me to We is a for-profit company that sells socially conscious and environmentally friendly products and travel experiences to developing countries. Products can be purchased online or at the Me to We store in Toronto. Half of Me to We's net profits are donated to the charity Free the Children.

2. Habitat for Humanity ReStores

ReStores, located across Canada, are building supply stores run by Habitat for Humanity affiliates that accept and resell quality new and used building materials. The profits generated by ReStores are used to fund the local affiliate that operates the store, specifically by covering administrative costs. This allows the money raised by the Habitat for Humanity through donations to go directly towards local builds and providing more families in the community with safe and affordable housing.

3. My Sister's Closet

My Sister's Closet is a Vancouver store operated by the non-profit Battered Women's Support Services (BWSS) that sells new and thrift clothing. Revenue generated by My Sister's Closet is used to fund violence prevention and intervention services operated by BWSS.

Mission-Based Social Enterprises

1. Kids in the Hall Bistro

Kids in the Hall Bistro is a downtown Edmonton Bistro located in City Hall. The restaurant provides at-risk youth facing multiple barriers to school and work, training in life and employment skills. Kids in the Hall Bistro is operated by Edmonton City Centre Church Corporation (E4C).

2. Starworks Packaging and Assembly

Starworks Packaging and Assembly is a social enterprise operated by the Developmental Disabilities Association, a non-profit organization providing services to Vancouver and Richmond, British Columbia. Starworks was created to provide employment to individuals with developmental disabilities. The services offered by Starworks include contract packaging, kit assembly, and post print assembly.

3. The Right Stuff

The Right Stuff is a social enterprise operated by The Skills Centre in Trail, BC. It provides the collating and delivery service of the Trail Daily Times newspaper. The work provides youth with paid employment experience in a supportive environment with an employment facilitator who helps them engage in goal setting, and provides assistance with gaining future employment opportunities.

Appendix B: Interview Guide

Profile of Social Enterprise/Intermediary

1. Can you tell me about your social enterprise/intermediary?
 - Organizational Structure (program of non-profit or corporation)
 - Primary source of revenue (private, government, non-profit)
 - Financial viability (market revenues alone or subsidized)
 - Do you currently receive any government support for your social enterprise/intermediary?
 - Services provided to social enterprises

Challenges

2. What are some of the main challenges that a social enterprise encounters both at the start and during its daily operations?
 - How do these challenges inhibit their work?
 - Which of these would you say is the biggest challenge?
 - Are these challenges the same as those faced when the social enterprise was first started?
 - The literature points to business expertise, accessing capital, legal ambiguity and measuring success as challenges, do you find this is the case?
 - How have social enterprises dealt with these challenges?

Opportunities

3. What actions can the provincial government take to support social enterprises in BC?
 - Tax credit for investments in social enterprises
 - Government financing (Investment in Resilient Capital)
 - Make Small Business BC resources more friendly to social enterprises
 - Amend the BC Business Corporations Act to include a Community Interest Corporation (CIC).
 - Increase the \$500 earnings exemption for Persons with Disabilities