



Policy Brief on Scaling the Impact of Social Enterprises

Policies for social entrepreneurship

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■ INTRODUCTION

Social enterprises contribute to addressing today's key social challenges – including poverty, social exclusion and unemployment – as well as overcoming gaps in general-interest service delivery. They also promote sustainable development and new ways of doing business, drawing on local assets and supporting job creation while generating tax revenues and triggering more efficient government spending. As social enterprises generate value that benefits local communities and society at large, scaling their social impact is in the interest of today's decision makers at all levels (Buckingham and Teasdale, 2013; Borzaga and Galera, 2011; Borzaga and Defourny, 2001; Ashoka/

McKinsey, 2012; Social Entrepreneurship Network, 2014; OECD, 1999).

Social enterprises are mainly concentrated in specific niches – particularly in local contexts – and are not evenly spread within and across countries (European Commission, 2014). Not only is their potential far from fully realised, but fast-growing and increasingly diversified social needs and environmental concerns call for a bolder presence of social enterprises. Public policies should therefore acknowledge social enterprises' capacity to generate value for the community and support their scaling efforts as a key objective.

Box 1. Social enterprise definition and development dynamics across European Union (EU) Member States

No agreed definition exists at the international level⁽¹⁾ of what constitutes a social enterprise. However, a gradual convergence of understanding has occurred in Europe as a result of intensive research by a growing number of scholars and the adoption of numerous laws specific to this type of enterprise in different countries.

At the European level, the definition of a social enterprise is built along three dimensions⁽²⁾:

- an entrepreneurial dimension (with earned income generated by the sale of goods/services on the market, including through public contracting);
- a social dimension (the pursuit of an explicit social aim and delivery of products/services with a social connotation);
- a governance dimension (accountability, participation and transparency).

The degree of development of social enterprises varies significantly across EU Member States. In some countries (e.g. Italy, France and the United Kingdom), social enterprises are well integrated in both the welfare system and market. These countries are endowed with a fully enabling policy framework that acknowledges the different domains where social enterprises are likely to emerge and adequately recognises their social added value. From a systemic perspective, they also are distinguished by the mature stage of development of social enterprises. Other countries (e.g. Bulgaria, Croatia, Czech Republic, Romania and Slovenia) are still at an early stage of development, where social enterprises are often invisible and rather isolated.

The different levels of understanding and maturity of the enabling ecosystem have a direct impact on the level of support policy makers are likely to provide to help social enterprises scale their impact.

⁽¹⁾ Definitions often overlap, mixing terms such as social entrepreneurship (referring to a mindset consisting in the design of innovative solutions to address unresolved economic, social and environmental concerns which does not result in a specific type of enterprise) and social enterprise (referring to an institution distinguished by specific features).

⁽²⁾ http://europa.eu/rapid/press-release_MEMO-11-735_en.htm?locale=EN

Scaling social impact is a big challenge for all the entities – public agencies, networks of social enterprises, communities of practitioners and researchers – that are committed to

supporting social enterprise development. In most cases, the value-creation chain of social enterprises differs significantly from that of conventional enterprises.⁽³⁾

⁽³⁾ For the purposes of this policy brief, the term "conventional enterprises" is used here in the sense of purely commercial enterprises or businesses.

Box 2. Scaling the social impact of social enterprises: What does this mean?

Scaling is defined as the most effective and efficient way to increase a social enterprise's social impact, based on its operational model, to satisfy the demand for relevant products and/or services. This definition focuses on increasing social impact, rather than the relative growth of the social enterprise itself. In other words, it is entirely possible to scale a social enterprise's innovative concept by using mechanisms and strategies that adhere to principles other than those used by a conventional enterprise.

Source: Weber, Krüger and Lambrich, (2015).

When considering scaling social impact, the following questions should be addressed: does the service or product offered by the organisation have a significant impact on the problem it aims to solve? If the answer is "yes", would it be possible to have the same effect on a larger scale, by including different beneficiaries or clients, as well as people (e.g. local communities) who benefit indirectly from social enterprises' activities – potentially in different geographic locations? This leads to a key question

for policy makers: how can policies contribute to this process of scaling social enterprises' social impact?

This policy brief will address this question in two steps. First, it will illustrate a number of strategies currently being used by social enterprises to scale their impact. Second, it will discuss the challenges encountered in this endeavour and the policy responses that could help overcome them.

■ COMPARING THE SCALING PATTERNS OF SOCIAL ENTERPRISES AND CONVENTIONAL ENTERPRISES

Although scaling is not an issue specific to social enterprises, the chain of value creation they follow is often different from that of conventional enterprises. These differences can be ascribed to social enterprises' specific features and overall objectives, which have an impact on their growth and scaling strategies. Three key issues differentiate the scaling strategies of social and conventional enterprises: their objectives, the specific characteristics of goods or services delivered by social enterprises, and the highly collaborative relations they establish with other stakeholders (see Table 1 below).

Scaling objectives: Social impact versus profit maximisation

When an organisation's main objective is to prioritise profit maximisation or shareholder value – as is the case for conventional enterprises – scaling normally means growing the business, expanding markets and reaching economies of scale. Conversely, the main aim of social enterprises is to expand and deepen the social impact by creating value for people, communities and society. Some social enterprises aspire to reach a greater number of users or beneficiaries, and therefore aspire to *scale widely their social impact* (quantitative approach). Others diversify their activities, either to address emerging needs at the local level or tackle the same needs from multiple angles. These social enterprises aspire to *scale deeply their social impact* (qualitative approach) (Heinecke and Mayer, 2012). In this view, scaling translates into expanding, or replicating and adapting, organisational structures and processes (André and Pache, 2014). This may also prompt social enterprises and other public or private stakeholders to establish partnerships and share knowledge.

Specificities of goods and services delivered by social enterprises

Social enterprises in Europe are active in many areas and sectors, from the more traditional (e.g. care services) to the more innovative (e.g. energy). Some social enterprises deliver general-interest services; these focus on the local context, and are labour-intensive and relationship-based, as they strongly depend on the interaction between providers and users or beneficiaries. The services supplied by these kinds of social enterprises – e.g. work integration social enterprises (WISEs) – might be difficult to replicate elsewhere, and are therefore best suited for addressing deeply rooted and/or context-specific challenges. Other services and goods can be relocated and traded more easily – including through online platforms – so that the social enterprise can achieve broad – or even transnational – social impact. In both cases, social enterprises may inspire social entrepreneurs in different locations or contexts to replicate and adapt their model in order to address challenges of a similar nature.

Collaborative relations among stakeholders

Most social enterprises operate according to the co-production paradigm. This presupposes that users – and often other local stakeholders – participate in the enterprise's governing bodies, leading to the adoption of multi-stakeholder governance models and bottom-up efforts to create social impact (Stephan, Kelly and Patterson, 2013). Furthermore, scaling strategies and operations are strongly shaped by the collaborative relationships that social enterprises establish with various actors, such as other social enterprises, public bodies, third-sector and

civic actors, and for-profit enterprises. Developing collaborative relationships and partnerships allows social enterprises to diffuse their knowledge, overcome entry barriers to new

markets and meet additional needs for resources. This, in turn, allows them to scale their impact without scaling their operational model.

Table 1. Comparing the main scaling patterns of social enterprises and conventional enterprises

| Characteristics/ Type of Enterprise | Social enterprise | Conventional enterprise |
|--|---|---|
| Main objective | Expand social impact | Maximise profit |
| Products or services delivered | Main – although not exclusive – focus on general-interest services that are difficult to transfer as they are generally labour-intensive, personalised and relational | Mainly standardised products or services, which can often be easily transferred or traded from one place to another |
| Relations established with other actors | Highly collaborative relations | Highly competitive relations |



| | | |
|------------------------------|---|--------------------------------------|
| Main scaling patterns | <ol style="list-style-type: none"> 1. Expand a well-functioning social business model 2. Replicate a well-functioning social business model 3. Establish partnerships 4. Engage in knowledge sharing. | Grow business, expand to new markets |
|------------------------------|---|--------------------------------------|

■ STRATEGIES FOR SCALING THE IMPACT OF SOCIAL ENTERPRISES

“Scaling down social barriers and scaling up impactful activities”
BRAC Social Innovation Lab, 2015

Policy design has a significant role to play in helping social enterprises scale their impact, by considering the different strategies to this aim. Given the variety of available strategies, policy makers should be aware of which are most commonly used, and under what conditions. Although data on strategies and activities to scale impact that can be used to inform policy making are limited, it is worth highlighting the few that do exist, keeping in mind some caveats: some surveys are context and country-specific (e.g. the *State of Social Enterprise UK Survey 2015*), whereas some others are the result of relatively small convenience samples (e.g. BENISI and TRANSITION, 2015; Weber, Kröger and Lambrich, 2015).

A recent survey undertaken by Social Enterprise UK⁽⁴⁾ (2015) shows that 93 % of social enterprises had taken specific actions to scale in the past 12 months. The majority tried to attract new customers or clients (83 %) or developed new products and services (59 %). Almost half (44 %)

diversified into new markets, and just over one-third (38 %) expanded into new geographic areas. Only 21 % managed to attract investments in order to expand, but 40 % planned to attract new investments in the next 12 months.

Franchising, as well as mergers and acquisitions seem to play a significant role – especially for larger social enterprises (more than 250 employees). Among these, 15 % have franchised or replicated over the last 12 months, compared to 7 % of all social enterprises surveyed. Another 15 % had grown through mergers, compared with 4 % for social enterprises taken as a whole (Social Enterprise UK, 2015). This is also in line with BENISI and TRANSITION (2015) findings that most of the “scalers” in their sample prefer to scale alone.

As was underscored by a recent study examining 378 social enterprises in Europe, social enterprises use the different scaling strategies separately or combined (Weber, Kröger and Lambrich, 2015). Hence, no single strategy should be put forward by policy makers as a silver bullet for tackling social issues at scale. On the contrary, policy makers should consider these strategies in their policy design and highlight successful cases, which can then inspire others.

⁽⁴⁾ The results of the survey are based on 1 159 interviews, gathered both online and over the telephone.

To do so effectively, they need to be better informed about how social enterprises scale their impact. The section below briefly presents the main scaling strategies, supported by a few examples, and bundled under four categories, based on whether social enterprises choose to scale their impact by expanding, replicating, partnering with others, and/or sharing their knowledge.

Scaling impact through expansion

Social enterprises select a variety of means – organisational growth, mergers and/or acquisitions and diversification – based on whether they want to scale their impact to new markets and locations, through new products and services, or through a combination of both. Social enterprises that want to grow competitively and have revenue-generating activities may also select these strategies.

Organisational growth is preferred by social enterprises that have a consolidated operational model with proven social impact, and therefore decide to do “more of the same” by reaching out to a larger number of beneficiaries and/or improving the quality of their services or products (Weber,

Kröger and Lambrich, 2015). Like small and medium-sized conventional enterprises (SMEs) or start-ups, social enterprises capitalise on economies of scale and try to reduce costs while increasing the efficiency and productivity of their operations and processes.

Mergers and acquisitions (M&A) are useful when deciding to grow in an already known or new location or sector by engaging in strategic buying and selling, or combining different organisations. This strategy helped several social enterprises to survive – and even to scale their impact – when faced with unfavourable economic conditions during the financial crisis, thanks to the business support and know-how provided by the parent social enterprise.

Diversification allows social enterprises to scale their impact by diversifying the activities related to their mission, either by adding an upstream or downstream activity to their value chain (vertical), adding a new activity to their portfolio in the sector where they already operate – thereby building on their expertise (horizontally) – or expanding to a completely new field of activity (resulting in a conglomerate) (Weber, Kröger and Lambrich, 2015; Avise, 2014; Edwards and Hulme, 1992; Ansoff, 1965).

Example 1: Groupe SOS (France)

Description: Created in France in 1984, Groupe SOS is now one of the largest social enterprises in the world. It has gradually widened its scope of action to the fight against social exclusion. Groupe SOS now numbers 350 different structures (NGOs, commercial enterprises, co-operatives) and operates in multiple sectors – ranging from childcare, senior care, care for the handicapped and healthcare to social housing, catering, transport, fair trade and communication, as well as services for people suffering from addictions and HIV/AIDS. Groupe SOS entities employ a total of 14 000 individuals and support more than 1 million beneficiaries each year in France and 20 other countries. In 2015, the group generated EUR 700 million in revenues, mostly stemming from contracts with the public sector (75% in 2013). Other revenue sources include partnerships with the private sector (EUR 1.1 million in 2011) (OECD and Centre d'analyse stratégique [CAS], 2013) and consumer payments. Finally, Groupe SOS receives government subsidies (representing less than 1% of the total budget), as well as some project-related grants from the European Social Fund. Like other social enterprises, Groupe SOS has specific governance rules, including regulated salary scales, an absence of shareholders and non-redistribution of profits.

Scaling strategies: Groupe SOS bases its growth primarily on economies of scale, M&A and diversification. In 1995, Groupe SOS decided to pool several functions (accounting, legal services, finance, human resources) within an “economic interest grouping”, resulting in optimised resources and management processes. It simultaneously expanded by acquiring other social enterprises, which were either in financial difficulty or simply seeking to grow through shareholder participation. Groupe SOS also diversified its activities by creating innovative responses to numerous social issues. More recently, it has engaged in work integration.

In order to scale up the impact of social enterprises in France and around the world, Groupe SOS has developed two specific programmes: “Social Novation” and “Ambassadeurs Solidaires”. The Social Novation programme, co-funded by the European Social Fund, follows a three-step process: identifying a market niche and social needs that have not yet been addressed (based on interviews with local stakeholders), enhancing the impact of existing solutions or creating new ones when needed, and sharing the results of the process with the relevant stakeholders. This open-source initiative aims to facilitate exchanges between professionals (associations, public authorities, partners) in different fields, within and/or outside Groupe SOS, by organising multidisciplinary working groups. The Ambassadeurs

Solidaire programme sends Groupe SOS ambassadors around the world⁽⁵⁾ to establish partnerships with local actors and share their expertise on scaling social enterprises.

Lessons: Groupe SOS illustrates the capacity of social enterprises to scale up through the years by combining multiple innovative scaling strategies – such as organisational growth, M&A and diversification – across multiple locations. The success of Groupe SOS can also be explained by its ability to identify unmet social needs and diversify its financial resources.

For further information, please see: <http://www.groupe-sos.org/en>; http://www.groupe-sos.org/actus/2402/Ambassadeurs_solidaire

⁽⁵⁾ The programme has been implemented so far in 12 large cities (London, Milan, Mumbai, Singapore, Montreal, New York, San Francisco, Sao Paulo, Seoul, Hong Kong, Buenos Aires and Cape Town).

Scaling impact through replication

Social enterprises might decide to scale by replicating models or methods that have proven successful in creating social impact, in other geographical contexts. Some of the advantages of replication are that it scales impact without growing the organisation, allows for local ownership, and can be rapidly adopted and adapted by others.

Replication may occur spontaneously, when social enterprises replicate an inspiring model or case without going through a formal process. It may also occur more formally, for instance, through branches or social franchising. A social enterprise builds its local presence and tailors its services to the local social needs by establishing **branches**, allowing it to retain some control over and coordinate the methods used to achieve social impact. **Social franchising** facilitates the

rapid and exact replication of a social enterprise's proven business model by other social enterprises, in accordance with a set of parameters agreed with the parent organisation in a compliance agreement (Mavra, 2011). Such an agreement may specify how the social enterprise should be run, and how the products or services will be sold or delivered; it may also include marketing and training procedures. The parent organisation can provide the new social enterprise (franchisee) with a manual describing all these aspects, along with management practices. This entails high levels of quality assurance for the delivery and management systems, as well as strong oversight to prevent social brand equity dilution and social focus dispersion. Both strategies – branches and social franchising – may ensure that the brand is easily recognisable by public or private stakeholders and consumers, perhaps facilitating the social enterprise's access to new markets.

Example 2: Le Mat (multiple countries)

Description: Le Mat is a social franchise system of social entrepreneurs operating in tourism, hospitality and local development through the creation of hotels, hostels, and bed and breakfasts, as well as other tourism services. The first hotel was set up in 1985 in Trieste; the Le Mat brand and network were launched in Italy through a European project in 2005.

Scaling strategies: Since 2005, Le Mat has expanded to several areas in Italy, Sweden, the United Kingdom, Poland and Hungary, and has created a strong brand name. A specific feature of this social franchise is that it allows social franchisees to adapt their model to the local context, in terms of culture, geography, architecture, production of goods and social aspects. Therefore, Le Mat provides social franchisees with: a site-specific *Quality Handbook*, which explains the rules governing daily work and management, as well as the inclusion of disadvantaged members and workers; a Le Mat Quality Assurance Card, which allows guests to provide feedback and evaluation; and manuals on marketing, sales, furniture, local tourism systems, training, organising and business planning. Finally, Le Mat experts offer their support through consultancies.

Lessons: Social enterprises choose to reproduce an already tested model through social franchising because it is easily replicable and backed by a recognised brand. They also harness social franchisers' know-how through manuals or handbooks on management processes and operations, which help them implement the model faster and overcome possible difficulties. Still, creating a qualified and reliable brand – and reaching the number of franchisees and clients necessary to make the system sustainable and interesting to private investors – may be a lengthy process. Hence, the design and implementation of national and European scaling policies could yield greater visibility and development support to social enterprises. These policies, combined with precise marketing-branding strategies provided by a social franchise system, could favour a wider replication of this model.

For further information, please refer to: <http://www.lemat.it/en>

Scaling impact through partnerships

Establishing **strategic partnerships** with other organisations (e.g. public authorities, private businesses and other social enterprises) is another way of scaling social impact by providing access to new markets, capacities and competencies faster than other scaling strategies (see Example 3). For example, developing and adapting a structure (e.g. branch or social franchise) in a new context or growing an existing one may take longer and require significant resources. Mutual benefits can

arise from partnerships. First, social enterprises may harness spin-offs from contracts for welfare services and/or join forces to participate in bidding procedures. Second, they can benefit from using their partner's (public or private) infrastructure, which could also serve as a potential distribution channel for their goods or services, helping them reach out to new customers. Third, public authorities may benefit from mainstreaming an innovative approach to social service delivery (Wixley and Noble, 2014). Finally, private businesses can enjoy reputational returns.

Example 3: Ready for Business consortium (Scotland, United Kingdom)

Description: Ready for Business is an innovative partnership between third-sector and private-sector organisations, which aims to scale up social enterprises and voluntary charities in Scotland by supporting the development of public social partnerships. The initiative receives financial support from the Scottish Government as part of its third-sector development policies. It was created in 2011 by a consortium of leading third-sector support agencies, i.e. CEIS, Social Firms Scotland and Senscot, together with KPMG, MacRoberts LLP and Sustainable Procurement Ltd.

Scaling strategies: By combining their knowledge and experience of the public procurement process and the issues faced when bidding for contracts, Ready for Business organisations have designed tailored programmes to connect third-sector organisations with the public sector, allowing them to scale their impact by accessing the market together. In addition to the guidance provided throughout the creation, development and management of public social partnerships, Ready for Business also offers capacity-building support to establish consortia of third-sector organisations – in 2011, 12 clusters were established to bid for contracts. Ready for Business has also created a register of “business-ready” third-sector organisations with the goal of increasing business and partnership opportunities. Finally, several events have been held to facilitate dialogue: local authorities and public-sector buyers have been invited to share their views about the opportunities and challenges faced when contracting with third-sector suppliers, who in turn have promoted their activities and services.

Lessons: Strategic partnerships enable social enterprises to achieve greater impact than they would have managed individually. There are two main takeaways. First, strategic partnerships combine the knowledge and experience of the entities involved, and capitalise on them. Partners can jointly tackle the issues – in terms of commissioning, procurement and third-sector engagement – that arise when dealing with the public sector. Each entity can contribute its comparative advantage, and partners can learn from each other and improve (for instance, third-sector organisations have improved their bidding and tendering skills). Second, partnerships can help social enterprises gain access to and raise more resources than would have been possible otherwise. In the case of Ready for Business, third-sector organisations accessed markets by participating in the consortium. Overall, this is an example of a win-win strategic partnership in terms of scaling impact.

For further information, please refer to: <http://readyforbusiness.org/about-us/>

Scaling impact through knowledge sharing

Social enterprises may stimulate or complement their scaling process through **knowledge sharing**, allowing them to draw salient lessons from their interaction with conventional enterprises. For instance, they can hone business skills – such as management practices, performance measurement and revenue-generation approaches – which they can then apply to scaling. They may also benefit from interacting with other social enterprises, which can instil valuable new practices – for example, on social services delivery.

Such interactions may take place formally – e.g. through labelling or official training procedures, established by the conventional or social enterprise offering the know-how – or informally – which does not impose specific constraints, as it aims to reach the largest possible number of recipients (Avisé, 2014).

Similarly, some social enterprises can transmit their organisational culture and knowledge (e.g. in terms of processes) to other social enterprises interested in replicating their model. They can also share their knowledge on the specific contextual conditions in which they operate with other social enterprises interested in entering the same market or locality. This exchange may take place informally, for example, through networking activities. It can also be done formally, in which case a social enterprise delegates responsibility for scaling activities to new partners – especially when the social business model needs to be adapted to unexplored contextual targets (Weber, Kröger and Lambrich, 2012).

Overall, these knowledge sharing processes, also known as **cross-fertilisation** or **cross-pollination** (Avisé, 2014; Gabriel, 2014; Mulgan, Murray and Caulier-Grice, 2010), can complement other scaling strategies, such as branches or social franchising.

Example 4: Knowledge-transfer device – AVISE (France)

Description: In 2003, AVISE, a French agency supporting social economy development, created *Transfert de savoir-faire* (TSF), a knowledge-transfer structure devoted to peer-to-peer exchange among social entrepreneurs. The structure is conceived as a space where social entrepreneurs can share their experience and skills to achieve different objectives, including organisational growth, M&A, replication, access to finance and markets, social impact assessment, communication and marketing. TSF sessions last between one and three days and receive financial support from the French government and the European Social Fund.

Lessons: This example illustrates the importance of knowledge sharing and transfer among social enterprises to achieve scaling impact. It also highlights the fact that knowledge sharing can be easily combined with other scaling strategies, and enhances social entrepreneurs' skills.

For more information, please refer to: <http://www.avise.org/annuaire-des-dispositifs/transfert-de-savoir-faire>

Key considerations

- Policy makers should support a policy mix to enable scaling, which needs to be tailored to the local environment.
- Smart policies should support the needs of social enterprises aiming to scale their businesses through expansion, as well as highlight proven models to foster replicability by new operators in new geographic areas.
- An enabling policy design should facilitate the creation – and raise the visibility – of partnerships and support structures aiming to help social enterprises scale their impact. It should also enhance knowledge sharing among social enterprises, as well as between social enterprises and conventional enterprises.
- Providing incentives to social enterprises to document their processes, and share them through open sources and knowledge dissemination channels, could be another effective policy lever.
- Policy support could be provided to social enterprises with proven social impact and the potential to scale nationally or inter/transnationally.

■ CHALLENGES AND POLICY RESPONSES FOR SCALING SOCIAL ENTERPRISES AND THEIR IMPACT

Not only do social enterprises need to overcome a set of challenges as they establish and consolidate their activities, they also face additional challenges once they decide to scale. Policy makers can play a significant role in helping social enterprises overcome these challenges, by focusing on three key areas: markets, finance and skills. This section describes the importance, identified challenges and possible policy options in each of these three areas. It also covers the role of networks, which have an essential role to play in addressing the three key areas.

1. Markets

"It is not enough to focus only on supply, with a 'build-it-and-they-will-come' mentality. Truly unlocking demand can be a game changer"
(Bradach and Grindle, 2014)

Importance

Social enterprises generate part of their income by operating in the market. They trade with both the public and private sectors, other social enterprises and the general public, allowing them to be sustainable and to scale their impact. Public procurement represents a significant percentage of the European market (14% of gross domestic product⁽⁶⁾); it is particularly relevant to social enterprises' scaling trajectory, and may enable them to grow while reducing their dependency on grants. Social enterprises could also benefit from entering into contracts with private businesses, which engage them in value chains and constitute a large and relatively untapped market that could

be quite valuable during scaling. Finally, unlocking the demand for specific types of social enterprises' goods or services can become a true game changer for scaling impact.

Challenges

The size of the contracts and the specific pre-qualification requirements in trading with the public sector through public procurement hinder social enterprises that wish to scale from qualifying for and participating in the process. The complexity of the bidding procedures, and their own lack of skills to navigate them, discourage social enterprises. For this reason, public procurement is an avenue that is mostly preferred by already established and/or large social enterprises. For example, in the United Kingdom, the largest social enterprises – i.e. those with an approximate turnover in excess of EUR 6.3 million or GBP 5 million – are three times more likely than the smaller ones to rely on the public sector as their main source of income.⁽⁷⁾ Moreover, public officials – particularly at the local level – may not be familiar with the added value of social enterprises when they evaluate tender offers, and may therefore evaluate them exclusively on value-for-money grounds during the tender processes.

Private businesses are often not aware of the existence or impact of social enterprises, and hence may not recognise them as legitimate partners. Furthermore, they may not identify any gains from partnering with social enterprises. As for consumers, they are not always aware of the goods or services offered by social enterprises – or, more importantly, of the impact they can make when "buying social".

Spotlight on the EC Challenge Platform

At the EU level, the European Commission recently launched a call for proposals to establish a "Challenge Platform" that seeks to mobilise social enterprises and SMEs to jointly address topical societal challenges. Similar initiatives could also be launched at the national or regional levels.

For further information, please refer to: <https://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/topics/23436-innosup-04-2016.html>

⁽⁶⁾ http://ec.europa.eu/growth/single-market/public-procurement/index_en.htm

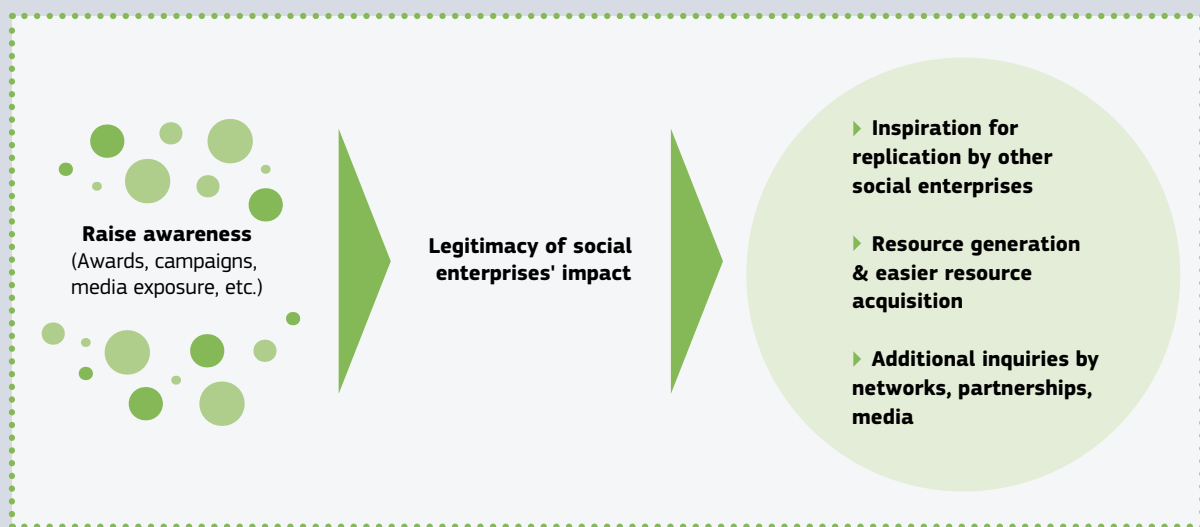
⁽⁷⁾ *State of Social Enterprise UK Survey 2015*, <http://socialenterprise.org.uk/uploads/editor/files/Publications/FINALVERSIONStateofSocialEnterpriseReport2015.pdf>

Box 3. Raise awareness and visibility of the impact of social enterprises

Raising awareness of social enterprises' mission and activities carries with it many advantages: it can enhance their access to markets and finance, heighten their legitimacy in the eyes of potential partners, inspire and encourage other social entrepreneurs to scale, and stimulate demand from mainstream consumers. Raising awareness is not only about financial gains, but – more importantly – about involving the end users in resolving a social challenge, thereby creating a virtuous cycle. The more consumers are aware and interested in helping – even indirectly – resolve a social challenge through their purchasing choices, the more they purchase from social enterprises, and the more social enterprises ensure their economic sustainability and capacity to scale and sustain their impact. Evidence from behavioural economics, as well as a recent study by Deloitte (2014), suggest that under certain circumstances, consumers – especially millennials – prefer goods or services that have a social value proposition, rather than a purely commercial one. This creates additional incentive for private businesses to partner with social enterprises, since they can also derive reputational gains from this collaboration.

Public support, for example through campaigns and awards, has the capacity to promote and raise the profile of social enterprises. For instance, the Buy Social and Social Saturday campaigns implemented in the United Kingdom have successfully raised awareness about social enterprises. Marks and labels are another policy option. When coupled with business techniques (such as social marketing), they allow social enterprises to communicate their mission in an accessible, business- and consumer-friendly way. Labels and marks should be treated with caution, however, as they may have negative effects on social enterprises in specific cultural contexts.

Establishing a virtuous policy continuum for scaling the impact of social enterprises



Policy options

Use public procurement tendering rules and procedures

- Introduce social clauses in the tendering process, as suggested by EC Directive 2014/24/EU⁽⁸⁾. If social clauses are available within the existing regulation, encourage local authorities to use them. Public procurement should include the option of reserving calls for tenders to “sheltered workshops”, provided that they employ 30% of disadvantaged people (Art. 20), as well as non-profit organisations with a public service remit, based on employee participation only, for a limited period up to three years and for certain social services only.
- Encourage the use of smaller public contracts in order to make it easier for social enterprises to participate in the public procurement process.
- Train public officials to understand the specific traits of social enterprises in the public procurement process.
- Relax or create more flexible pre-qualification requirements in line with the nature of social enterprises.
- Reduce – whenever possible – the red tape of the public procurement process and establish one-stop shops to provide social entrepreneurs with all relevant information.

⁽⁸⁾ <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32014L0024>

Enhance the capacity of social enterprises to participate in tenders

- Foster the creation of platforms and support structures where social enterprises can exchange good practices and learning experiences, as well as develop their skills, so that they may conform to the relevant regulations, meet procedural requirements and promote their added value when navigating the bidding process.
- Encourage the development of partnerships, clusters and networks of social enterprises with complementary capabilities along value chains or operating across different sectors to overcome disadvantages linked to contract “size” (Folmer and Stephan, 2015).
- Raise awareness of the public procurement process and reduce the perception that bidding is more complicated than it actually is.

Access to private markets

- Help social enterprises hone their business acumen and skills so that they are easily recognisable by private-sector partners. Umbrella organisations, dedicated support structures, development agencies, incubators and hubs can assist them in this endeavour. They can also help them (especially in their start-up stage) devise and implement effective market entry strategies and establish their position in the market while scaling (Leat, 2003; Mavra, 2011).
- Encourage private businesses to embrace socially responsible private procurement and engage with social enterprises. Also provide smart incentives to include them in their value chains and highlight the importance of the potential reputational returns to be derived from such partnerships.
- Encourage private businesses to implement a corporate social responsibility policy as another avenue for collaborating with social enterprises.

Awareness and visibility

- Consider implementing campaigns and awards, and providing media exposure that can raise public awareness about social enterprises, thereby boosting their legitimacy in the eyes of potential partners.
- Support the use of labels and marks, which could raise the visibility of social enterprises and stimulate demand for their goods and/or services.

2. Finance

Importance

Although social enterprises derive a portion of their revenues from the markets, financial support from various streams remains essential to them during their scaling trajectory. Public funds – such as subsidies – may be more relevant to social enterprises that choose to scale their impact by replicating a proven model and build their organisational structure from scratch. Loans and other schemes (such as equity or quasi-equity, and subordinated debt from commercial and co-operative banks) seem more appropriate for social enterprises with consolidated business models, which may have a lower risk profile or greater collateral. Emerging hybrid funding sources, together with social-impact investing or venture philanthropy, could also apply to social enterprises, based on their investment-readiness and regardless of their development stage or scaling pathway: foundations and/or actors engaged in this field provide high engagement, tailored financing, multi-year support, non-financial support, network involvement, organisational capacity building and performance measurement (OECD, 2014; OECD, 2015).

Challenges

Financial sustainability is often mentioned as one of the main barriers to a scaling trajectory, and a financing gap has been identified for early-stage social enterprises wishing to scale. The scaling stage typically requires EUR 100 000 to EUR 500 000 (Financing Agency for Social Entrepreneurship, 2015). Most early-stage social enterprises, however, are not able to cover more than 75% of their operating costs with revenues. In addition, funders may not sufficiently engage with social enterprises, and may even impede their efforts to reach their full potential. For instance, the provision of short-term funds – usually for one to three years – hinders achieving scale outcomes over time and entails a high degree of uncertainty (Bull, Hedley and Nichols, 2014). Moreover, social entrepreneurs may consider foundations’ grant-making processes – which entail complex screening procedures and paperwork – as overly bureaucratic and difficult to access.

Funders that deal with social enterprises cannot always easily and rightfully assess the impact of their investment. According to the 2015 JP Morgan and GIIN Impact Investor Survey, investors have consistently pointed over the last three years to a shortage of high-quality investment opportunities with a track record (JP Morgan and GIIN, 2015). As a result, they avoid investing in social enterprises with less immediate impact or limited capacity to measure impact.

Box 4. Funder collaboration for greater social impact

If systemic change is to be realised, and a consistently enabling environment created for social enterprises, funders need to collaborate more closely. Their support may be needed throughout the lifecycle of the social enterprise, including during the scaling process.

Funders may collaborate to exchange information and learn from each other regarding different elements of scaling and financing social enterprises. For instance, they could exchange on social-impact measurement methods. First, gathering this kind of information allows them to develop a common understanding and second, to build an evidence base and compare different approaches within a field or sector of intervention (Bull, Hedley and Nichols, 2015; OECD, 2015). This could constitute a considerable step in terms of deciding which activities should be taken to scale and which should not.

Funders may also be aware of each other's strategic priorities, as well as of the projects being funded. Such knowledge will allow them not only to avoid duplicating efforts in some circumstances, but also to join forces and pool funds in others, for instance by combining financial resources and capacity building. Such concerted action may support social enterprises consistently and sustainably during their scaling trajectory.

In Europe, funders and foundations in particular collaborate in various ways. Examples range from small foundations that join up locally, share due diligence and refer to one another's potential beneficiaries, to well-established international foundations issuing large-scale call for proposals to fund rigorous impact-evaluation exercises (Grant Craft, 2012). For example, the European Venture Philanthropy Association (EVPA) provides the platform for foundations to collaborate, share knowledge and forge new partnerships, thanks to thematic groups in which practitioners exchange good practices and experiences from working within the Social Business Initiative framework. EVPA also generates new evidence, and its Training Academy offers organised learning opportunities for scaling the impact of social enterprises and impact investors.

For further information, please refer to: <http://evpa.eu.com/>

Policy options

Synergies

- Ensure the availability of a wide range of appropriate financial resources and instruments, including hybrid instruments, which contribute to the different scaling needs of social enterprises, and ensure their medium and long-term viability and sustainability.
- Acknowledge the useful role of good-quality intermediaries as conveners of stakeholders with complementary needs.
- Encourage funder collaboration to exchange information and good practices on scaling, monitoring and measuring social impact.

Training and capacity building

- Support training opportunities that teach social enterprises how to harness financial resources and encourage them to participate in knowledge-sharing networks.
- Raise awareness about training opportunities offered by intermediaries – for example, on how social enterprises can communicate effectively their business ideas and social mission to investors – to help make social enterprises investment-ready.

3. Skills

Importance

The success of the scaling-up trajectory hinges significantly on social entrepreneurs' capacity and competencies. Financial planning and reporting are essential to helping them navigate and manage the financing options tailored to scaling. Market analysis and social marketing comprise another set of skills that are particularly relevant to successful business development and scaling. Market analysis helps social enterprises decide whether a market is suitable for scaling purposes, and identify prospective opportunities and challenges; it can also help them develop a tailored social-business model, as well as raise awareness about their activities and services through social marketing. Employment leadership and management are crucial to ensuring that the social enterprise remains focused on its mission, while motivating more people to serve that mission. Effective management also allows creating teams with the right mix of skills for scaling. Last but not least, creating and openly sharing a blueprint of the method for measuring social impact helps other social enterprises replicate and adapt it to their specific contexts. A social enterprise accustomed to monitoring its own impact is better positioned to make crucial decisions about managing an effective scaling-up trajectory, prioritising activities and competing for access to capital (Nicholls, 2007).

Challenge

Different or more advanced skills are required during the scaling trajectory compared to the start-up phase, which entails much “muddling through”. When designing training programmes or initiatives, policy makers must take into account a diverse set of skills. For instance, social entrepreneurs coming from the non-profit sector may need to strengthen their business skills; conversely, social entrepreneurs from the private sector may need to enhance their social-change competencies (Stephan, Kelly and Patterson, 2013).

Measuring social impact remains a daunting task, for several reasons. One reason is the intangible nature of social impact, which requires specific skills to capture and convey it to funders. Providing skills training, or recruiting new staff with relevant profiles, may entail additional costs for the social enterprise. Another reason is that the social-impact measurement process, although significant and beneficial when it is part of the social enterprise’s organisational culture, can be burdensome and render the delivery of social services and goods slower and less personalised (OECD/European Union, 2015a).

Spotlight on a tool for managing impact

In Germany, the Bertelsmann Foundation and PHINEO, an organisation specialised in advancing impact investment and civic engagement, jointly published a *Guidance Note on Impact (Kursbuch Wirkung)* providing concrete advice for integrating social-impact design, management and measurement in organisational work.

For further information, please refer to: <http://www.phineo.org/themen/social-impact-navigator>

Policy options

Business skills

- Breed an entrepreneurship culture and skills through education at all levels, with positive effects in the long run.
- Encourage social enterprises to engage in and benefit from transnational learning experiences, as well as the experiences of conventional enterprises.
- Acknowledge the diverse training needs of social entrepreneurs, promote relevant training, and foster dialogue and knowledge-sharing between conventional enterprises and social enterprises.

Impact measurement

- Develop open-source repositories of good practices and methods, as well as libraries of indicators for measuring social impact (these could also be created by public authorities in a portal dedicated to social enterprises).

- Stimulate knowledge-sharing on measuring social impact among social entrepreneurs, among funders, and among social entrepreneurs and funders.
- Nurture a culture of monitoring and evaluation, and encourage social enterprises to embed progressively social-impact metrics in their organisational culture.

4. Networks’ special role in scaling impact

Networks can play a special role in scaling impact. First, they can widely diffuse different social enterprise models (Noya [ed.], 2009; Mavra, 2011). Second, they can help social enterprises meet the growing demand for services, by spinning off new initiatives while maintaining their locally embedded dimension. Third, they can provide an inspiring platform for interesting and fruitful encounters among social enterprises and other stakeholders (BENISI, 2015). All of these advantages can help social enterprises overcome attitudinal barriers and self-restraining mindsets, which often impede them from scaling up their impact (Bradach and Grindle, 2014a) (see Box 5).

Box 5. Mindsets: What if social enterprises do not want to scale?

Social enterprises may assume self-imposed behavioural barriers. In most cases, social enterprises are established with limited aspirations; many retain a modest organisational scale, reach and impact – not as a result of their own limitations, but rather of a legitimate development choice (Blundel and Lyon, 2014). Still, it is worth highlighting this phenomenon so that policy makers can help social enterprises overcome this state of mind, when it is based on fear rather than on a conscious business development choice.

By embracing a “small is beautiful” attitude, social enterprises may overlook or underestimate the opportunities to scale and achieve greater impact. With this mindset, “going to scale” often translates into cutting ties with local communities, or becoming more impersonal – especially when the social enterprises perceive “scaling” as exclusively motivated by organisational growth. Social enterprises sometimes underestimate the value of their contribution in other regions, because of a “home bias effect”. By participating in networks, they can learn from the experiences of others that scaling does not necessarily mean organisational growth or losing grasp of local realities, and that their approach may be relevant and impactful in other contexts.

Networks and support structures may also act as sources of valuable information exchange and platforms for forging partnerships. They can help social enterprises access finance, identify business partners, and become familiar with new ideas for services and products, processes, organisational methods and social business models (OECD/European Union, 2015b). Impact Hub is a well-known network that recently launched its Scaling Programme (see Box 5).

Boosting skill development for scaling is another feature of networks, which act as focal points for accessing information,

training, mentoring and coaching – all of which result in stimulating knowledge transfer and exchange. Findings from the BENISI and TRANSITION projects suggest that the “scalers” themselves need to leverage the benefits of these networks, but that few “scalers” have the skills and capacity to do so (BENISI-TRANSITION, 2015). Another interesting observation is that networks support different scaling patterns. For instance, the Impact Hub Scaling Program highlights more joint venturing, expanding and social franchising, whereas Ashoka Globalizer focuses more on replicating ideas (see Box 5).

Example 5: Scaling programmes offered by networks

The Impact Hub Scaling Program provides year-long support to social enterprises with proven impact that are ready to scale locally and internationally. The Program brings together eight Impact Hubs in Europe (Amsterdam, Athens, Bucharest, London King’s Cross, Madrid, Milan, Stockholm and Vienna), which have supported 100 social enterprises or “scalers” so far. Each Impact Hub engages with scaling managers, who have local knowledge and can help social enterprises identify territories in which they can scale across Europe through joint venturing, expanding and social franchising.

The Program also gives social enterprises the opportunity to acquire skills, knowledge, advice and access to investor networks by partnering with business experts in all eight cities. Finally, it offers mentoring and tailored scaling support to address the needs of each selected social enterprise.

For further information, please refer to: <http://scaling.impacthub.net/>

Ashoka Globalizer: Accelerating impact worldwide

Having acknowledged that social innovation often remains local or national, Ashoka launched the Ashoka Globalizer in 2009 with the goal of linking initiatives that are ready to scale globally with the required financial, strategic and intellectual support. Ashoka Globalizer functions as a cross-sectoral, tightly knit community supporting social entrepreneurs who are part of the Ashoka network. Successful entrepreneurs from the business and social sectors, experts from the Ashoka Globalizer team and advisors from McKinsey & Company offer their services free of charge to help social enterprises refine and adapt their scaling strategies. Ashoka Globalizer enables structured entrepreneur-to-entrepreneur encounters and aims to develop more effective scaling-impact strategies.

The programme focuses on scaling up the organisation’s impact without necessarily scaling up the organisation itself.

For more information, please refer to: <http://www.ashokaglobalizer.org/>

Networks can be local, regional, national or international. The international dimension is particularly relevant to social enterprises at the scaling stage. Being part of a national network that is connected to an international network can provide access to a greater diversity of resources and ideas, exposure to different contexts and, of course, options to expand to

international markets. As discussed in Box 6, online networks and “virtual communities” operating – often at low cost – beyond geographic boundaries can help social enterprises scale up. Despite their various qualities, however, networks cannot replace face-to-face interaction, and their effectiveness remains to be proven.

Box 6. New technologies: A lever for scaling social impact?

The new ICTs are rapidly changing the environment in which social enterprises operate. These technologies enable social enterprises to move beyond their local geographic area and generate greater impact by scaling easily replicable activities with lower unit costs in traditionally underserved areas. Social enterprises can also leverage new technologies to rethink and disrupt conventional business models, thus creating both opportunities and challenges.

Opportunities

1. Foster networks between social enterprises and the public and private sector, while facilitating easier and faster knowledge transfer and allowing for greater communication and coordination.
2. Leverage assets from different geographical regions and raise funds through online platforms and crowdfunding.
3. Enable the production of goods and services in a more efficient, timely, consistent and cost-effective manner.
4. Overcome distance barriers and lower transaction costs. This affects the beneficiary/customer relation with the social enterprise, as it adopts a more expansive notion of community that is not limited to geography.
5. Help social entrepreneurs sharpen their skills by learning from others, as well as through online courses and modules.
6. Make social enterprise governance more transparent, participatory and representative by including team members, beneficiaries and customers, regardless of their location.

Challenges

1. Digital divides owing to limited access to broadband access in some – especially remote – areas.
2. Lack of technological savviness of some users in terms of harnessing all the benefits of ICTs.
3. Risk of dilution of the relational dimension of services provided by social enterprises.

Considerations for policy makers

1. Encourage evaluation of the impact of ICTs in addressing social issues.
2. Ensure broadband access and network penetration, even in remote areas.
3. Raise the visibility of online networks, platforms and courses.

Policy options

- Strengthen the role of networks and encourage knowledge sharing with other social enterprises willing to adopt and adapt their approach to shift mindsets.
- Support establishing connections among national and international networks, and encourage social enterprises – particularly those interested in pursuing transnational operations – to participate in these networks.
- Encourage the creation of online networks to increase learning opportunities from transnational experiences.

■ CONCLUSIONS

Social enterprises can act as catalysts for scaling social impact. To do so, they need favourable conditions; these can be ensured through policies that are targeted to their needs during their scaling trajectory. Significant space exists for policy actions aiming to inspire or help social enterprises scale their impact and tackle any challenges they may encounter along the way. This policy brief presented the main strategies, along with tailored policy responses:

- Encouraging national and local authorities to use social clauses and reserved contracts is one way of opening up market opportunities for social enterprises and fostering financial sustainability as it enhances the viability of their business model, which is essential for scaling.
- Engaging conventional enterprises and corporations by providing them with incentives to adopt a socially responsible procurement process can also give social enterprises access to an almost unexploited market and create fertile ground for further scaling.
- Accompanying social enterprises' scaling trajectory with tailored (including hybrid) finance, and supporting the creation of intermediaries that connect them with investors and render them investment-ready, ensures their sustainability.
- Raising awareness is indispensable for scaling impact and has multiple benefits for social enterprises. Policies and initiatives such as campaigns, awards, labels and media exposure not only enhance social enterprises' visibility – which can help them generate resources – but also inspire others to replicate their models.
- Finally, policy makers can help social enterprises overcome self-restraining behaviours and select the most suitable strategy by promoting open sources and networks, stimulating knowledge transfer and supporting pilot projects. New ICTs can play a key role in this regard.

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This policy brief on strategies and policies to scale the social impact of social enterprises was produced within a multi-annual cooperation between the LEED programme of the OECD and the Directorate General Employment, Social Affairs and Inclusion of the European Commission. It begins by explaining what a social enterprise is and what scaling means in the context of social enterprises. It then compares the scaling patterns of social enterprises and conventional enterprises, looking at social impact vs. profit maximisation, the types of goods and services involved, and stakeholder relations. It goes on to examine specific strategies for scaling impact and also highlights the challenges and policy responses connected with this.

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