

A good management structure is the key to success: Discussing good practices

Round table // Social and solidarity economy



Moderator

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Speakers

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Executive summary

In France and in the rest of Europe, social and solidarity-based economy organizations have very diverse statuses, whether they are social enterprises, associations, cooperatives, mutual companies, or foundations. To what extent do the statuses drive the objectives and the successes of these organizations?

Governance is vital to manage a social company. Indeed, the statuses of these organizations determine their governance system. It is what distinguishes social and solidarity-based economy organizations from traditional companies. The variety of these statuses in France allows each project developer to adopt the best suited governance model, depending on the objective he has in mind for his business. However, from the point of view of potential investors or the public at large, the diversity of these statuses can result in a lack of transparency on the social enterprises' end.

This raises concerns on the creation of a unique social enterprise status. Some people believe that this would allow these enterprises to gain easier access to capital. Others believe that the status bears no evidence of the company's social impact and would prefer a label which could track these companies' day-to-day practices at any given time.

In addition, social impact is a notion which is difficult to quantify, and analytical methods vary based on the structures and their core activity. This is however important to a growing number of investors who take risks despite the limited profit those social enterprises can yield.

MACIF, Crédit Coopératif, and the SOS Group have shed light on the current practices among social enterprises.

Synthesis

During this round table, the panelists analyzed current governance models through their own experience and emphasized their importance in the management of social enterprises.

First of all, **Nicolas Hazard** presented the **SOS Group** whose originality lays in the fact that it encompasses different structures with different statuses. The SOS Group has offices in the French metropolitan area as well as in overseas territories and employs 4000 people in 3 different fields: health and social work, education and training, and work integration through economic activity. The structure is unique because it comprises 40 social enterprises with different statuses – associations, companies, cooperatives – and because it chooses to put in common certain functions and capacities by creating an economic interest grouping.

According to **Nicolas Hazard**, this organizational structure is optimal for management purposes. On the one hand, the group is held by 3 main associations. It is thus an association of legal entities which guarantees the not-for-profit status of the group and strengthens its credibility as a player in the social and solidarity-based economy. On the other hand, the variety of statuses allows the group to identify the best status for each activity, based on the targeted impact and the amount of commercial activities involved. For example, for general interest activities, the group would choose an association status.

From **Nicolas Hazard's** point of view, although the status is critical to governance issues because of its role in determining the structure of the group, it does not, however, determine the success of the Group. According to him, the most important stake remains the measured social impact of the organization.

Hugues Sibille reminded the audience that the specificity of social and solidarity-based economy relies on 3 main factors. First of all, this economic model is based on values: democracy and solidarity. Then particular statuses set out rules encompassing two characteristics: power sharing ("one man=one voice") and profits sharing, since the surplus cannot be redistributed individually and must be reinvested in the business. Finally, companies' growing sense of social responsibility is the third part of the model, because it is decisive to maintain balance between profitability and solidarity. As the arbitrages regarding these 3 drivers intervene at the governance level, the governance model ensures the observance of the principles of the social and solidarity-based economy.

François-Xavier Hay reminded the audience of the importance of statuses, which describe the core business of the company, the social mission of the project, and the rules that define power sharing and profit distribution. These factors are essential as they regulate activity and make it possible to tell apart a person-based society ("one man=one voice") and a capital-based society ("one euro=one voice"). As a consequence, social economy differs from the capitalist economy in the sense that power is distributed democratically

and not founded on capital property. Furthermore, the financial reserves attached to the social objectives cannot be shared. However, beyond considerations of statuses, their practical implementation is essential to the impact of social enterprises.

After stressing the importance of governance in social enterprises, the participants were asked about the practices within their organizations.

At **MACIF**, as **François-Xavier Hay** explained, solidarity is implemented by sharing profits, which are either reinvested in the business or in preventive actions, the MACIF foundation, or other expenses that help solving social issues. The "one man=one voice" system ensures that democratic principles are complied with: national directors are chosen amongst 2000 delegates, who are themselves elected by members of the mutual company. The choice of the delegates comes from political partnerships and the debates that they lead shape the governance and influence the organization's decisions. The diversity of political partnerships gives way to a consensus in decision-making processes which minimizes risks.

What about cooperative banks? While **Hugues Sibille** acknowledged the challenge that represents implementing a participatory approach in large companies, **Crédit Coopératif** makes an effort to bring theory and practice together. As a result, 33 000 legal persons who are its members can get involved in decision-making, for instance participating in the regional general assemblies where the banks results announced, the strategic orientations decided, and the board of directors elected.

Two other specificities of **Crédit Coopératif** are also worth mentioning: the publication of a cooperative report providing a detailed description of the source and the use of financial resources, as well as a stakeholder system. In each region, a committee of partners, members, and clients has been set up to discuss the bank activities and to better understand its organization and its needs. The group's development model is a partnership model, based on co-operation and coproduction between the company and its clients. This allows the company to be more aware of the stakeholders' needs.

The third part of the discussion evolved around the question of impact, and the tools that social enterprises have at their disposal to measure it.

According to **Nicolas Hazard**, the social impact is as important as the financial impact. It is however difficult to measure it, especially within the SOS Group, because of the diversity in the tasks they perform. The evaluation method varies from one mission to another. For example, for work integration through economic activity, the SOS Group evaluates the percentage of people that find a job in a traditional company after 3 months. As for correc-

tional institutions, statistics show that the rate at which young delinquents commit a second offence is lower when they are leaving a rehabilitation centre than after being incarcerated. The SOS Group evaluates its social impact using this kind of data.

In the United Kingdom, “social impact bonds” have been created. “Social impact bonds” are financial obligations that remunerate social enterprises on the basis of their social impact. This model raises a few questions: Should we move towards such a system? Does financial return have to be connected to performance, even for social enterprises?

François-Xavier Hay explained that at MACIF, the social determinants that spearhead decisions within the enterprise vary: health/dependence, housing, mobility, over-indebtedness... The social impact of activities is expressed through the feedback of the delegates, who represent the members. The reports on business activities and on the company’s social responsibility complete this evaluation.

For **Hugues Sibille**, the first factor that must be identified to measure Crédit Coopératif’s social impact is the way the money is used by the bank. Each year, 8 billion Euros worth deposits are cashed in at Crédit Coopératif. Almost 40% of these deposits are used to finance general interest associations or

work/tasks. This traceability in terms of cash flows is fundamental as it bestows the enterprise with more transparency, meaning that people have more confidence in the company.

The final comments dealt with the need for social enterprises to have a common status. Indeed, players in the sector agree on the lack of transparency of the social and solidarity-based economy.

François-Xavier Hay considers that an exclusive status for social enterprises is not necessary because enough ways to create a corporation already exist. In his opinion, the main issue is not the status but the practices of these enterprises and their impact. He believes it would be more prudent to establish a label which would analyze the practices of companies and associations as the social impact of a company does not result from its status but from its practices. Besides, removing a label is easy while it is very difficult to take away a status should the company stop acting as a social enterprise.

Hugues Sibille added that a label can be used in different ways: it can serve as a marketing tool to communicate with people, it can be a referential



framework or it can even be more binding. For example, for social financing, there is a Finansol label. This label is managed by an independent labeling committee, which establishes solidarity and transparency criteria. It is always necessary to determine who delivers the label (public authorities, peers in the sector, etc).

In addition, the Mouves (Movement of Social Entrepreneurs) emphasizes the importance of 4 criteria which, in their opinion, define a social enterprise:

- The company must have a social purpose.
- Profitability must be limited.
- Salary discrepancies must be limited.
- Profits must be reinvested in the business.

But does this allow enough transparency for potential investors? **Hugues Sibille** continued saying that, if a new specific social enterprise status is created, we would risk creating a social enterprise “ghetto”.

For **Nicolas Hazard**, the biggest concern for social entrepreneurs is to raise funds. With an association status, it is impossible to open capital to shareholders and attract funding. A balance must be found: in a capital company, it is possible to cap financial return in the shareholder agreement, even though it would be more difficult to find investors eager to take risks. Here is the main issue at stake: How do we raise funds today as social entrepreneurs and how do we change the level of investments without scaring off investors? The

“Community Interest Company” model, which was launched in the United Kingdom in 2005, is a potential option. We could even imagine enterprises with a simplified stock corporation (SAS) status which would be given a specific fiscal status for social enterprises.

Governance structures, as we have seen, are therefore key for the success of a business. The problem hence resides in the transparency of the social and solidarity-based economy. To this day, there is no miracle solution to this issue. It is therefore the responsibility of each social entrepreneur to draw inspiration from past successful experiences and to pick the governance model that best suits his enterprise, according to the social purpose, the development capacity, the ambitions, and the involvement of its members in democratic or capitalistic governance.

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