Towards an eco-social enterprise?

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There has been considerable discussion in the literature about the tension between two perspectives on the third sector/social economy (e.g. Laville et al. 1999, Amin et al. 2002, Levi 2005, Lloyd 2005).

The first view, growing out of an ahistorical neo-classical economic approach, compartmentalises the market, the state and the third sector into different boxes, seeing the state and the market as paramount and the third sector as stop-gap, emerging as a result of state or market failure. In this view, the third sector or social economy is seen as a „toolkit“ (Lloyd 2005) for social inclusion into an increasingly unfettered market, whose ascendancy is seen as either essentially benign or as inevitable.

The second perspective, drawing on a radical European historical tradition and the work of Polanyi1 (2001/1944) and others, sees social economy/third sector organisations and the welfare state as having emerged as a reaction to a disembedding of the economy from social and environmental constraints via market forces. A pure market approach, mediated by for-profit corporations is seen as unethical, because it is created for maximising profit rather than meeting a general or mutual interest (Laville et al. 1999). The social economy is viewed not as a stop-gap, but as a radical and viable alternative to the hegemonic project of neoliberalisation (Lloyd 2005).

Today, as environmental issues like biodiversity loss, global warming and fossil fuel depletion are increasingly causally linked to mainstream economic practices, the neo-liberal model is coming under attack from a green as well as a social perspective (World Resources Institute 2005, Daly and Farley 2004, Shelley 2005). Ecological activists of the 21st century are joining hands with European social activists of the 19th as patterns of economic activity are increasingly seen to be the main driver behind environmental decline (Parrish 2007). If we use the vocabulary of the first perspective mentioned above, we need an economy which would attempt not only social but also environmental inclusion to counter market failure. From the more radical perspective, we need to re-embed the economy not only in society, but also in nature, to counter the destructive ascendancy of the market and of the powerful for-profit corporations, pressured by the system to externalise their costs on nature and society.

From both perspectives, economic organisations and their activity patterns have an important role to play in bringing about an environmentally sustainable world. But while considerable attention has been given to integrating environmental concerns into existing mainstream enterprises, surprisingly little attention has been paid to the needs of entrepreneurs who try to incorporate green principles into their organisational designs and goals from the beginning (Parrish 2007). With social enterprises, the academic discourse centers overwhelmingly on the ability to benefit their human rather than their natural communities and most social entreprise

1 Polanyi’s critique of the neo-liberal model has since been elaborated by a wide specturm of authors, criticising both the model and its application in practice from humanistic, environmental and social perspectives (eg. Illich 1981, Daly and Cobb 1990, Lutz 1999, Korten 1995 and others).
theorists, if they mention environmental benefits at all, see them as a subsidiary of the social. Social enterprise typologies often conspicuously lack any mention of enterprises such as organic farms, community-supported-agriculture-schemes or green energy projects.

David Korten (1995) described in detail the process whereby transnational corporations, caught in the economic race to the bottom, externalise their costs on human society and nature - they produce negative externalities. A social, or eco-social economy, on the other hand, might be expected to help both people and nature, and thus to produce positive externalities.

In my own research, focused on Britain and the Czech Republic (Johanisova 2005, 2007) I made an effort to discover and map „green“ social enterprises, or „eco-social enterprises“, especially in rural areas, whose explicit (or in some few cases implicit) goals included activities protecting or enhancing ecological (or natural) capital.

In Britain one outstanding example was the Isle of Eigg Trust, a community organisation representing the 80-odd inhabitants of this small Hebridean island. In 1997, they effected a successful buy-out of all the land on the island, originally owned by an absentee landlord („laird“). The Trust, which has a very intricate and democratic organisational structure (see Fig. 1), proceeded to strengthen the rights of local people to their houses (owned by the trust), and then started to systematically support the local economy of the island as well as its natural capital (natural woodland planting).

Another interesting British eco-social enterprise is WyeCycle, a business with five employees, based in the small town of Wye in Southeast England. WyeCycle started out as an initiative of the local group of Friends of the Earth in 1989, when they began a recycling scheme. Later they became a financially self-supporting enterprise. After a while, they concluded that it is even better to minimise waste than to recycle it. They helped a local fruit and vegetable grower sell his produce straight to local customers, and they started organising regular farmers’ markets. The direct-selling scheme and the farmers’ markets help local farmers survive economically and at the same time they save waste in the form of packaging and use of transport fuel. On a social level, WyeCycle has created jobs for five local young people, including one who had been unemployed long-term.

Examples from the Czech Republic include the White Carpathian Sheep Partnership, which emerged when both the wool market and sheep grazing subsidies failed in 1997. Sheep had been a traditional source of employment in this rural area near the Slovakian border, and there was an environmental aspect as well: grazing and haymaking had for centuries maintained the biological diversity of the local flower meadows which form an intergeral part of the White Carpathian landscape.

Fig. 1: Isle of Eigg Trust structure diagram (Johanisova 2005, 2007)
Where the market and state failed, the local community stepped in. A local environmental enabling organisation called Kosenka found thirty people who were each willing to invest in the purchasing price of a sheep. They were to get their money back within seven years, including interest: in money or in mutton. This capital combined with an interest-free loan from the Czech ecological farmers’ group Probio enabled two local farmers to buy 60 sheep, of which the thirty sheep, owned by the individual „shareholders“, were only rented. The legal aspects, including communication with the shareholders, were the responsibility of Kosenka. An agreement between the farmers and Kosenka stipulated that the farmers will have their sheep graze some of the most valuable natural areas, and Kosenka will help with the selling of mutton and sheepskins. From the beginning, the shareholders played a large part in this: 60% were willing to be repaid in mutton rather than money. The project worked from the point of view of the shareholders, the farmers, and the natural environment (the „silent stakeholder“). By 2003 the farmers already had 300 sheep and were renting land (about 600 hectares) from 105 local owners. In the autumn, they graze the most valuable meadows in natural reserves (Johanisova 2005,2007).
Another outstanding example of an eco-social enterprise is the small apple-juice plant in the Czech village of Hostetin (240 inhabitants), also in the White Carpathians on the Moravian-Slovakian border (see also Griffiths et al. 2004). In 2000 a new apple-juice plant was built here to produce and sell juice from local fruits. The primary goal, however, was not profit for the investors nor the production of a certain product or service. As in the previous case, the main goal was perpetuation of the natural capital of the White Carpathians, in this case the genetic diversity of the fruit trees, which had been bred over the centuries by local people. Today the possibility of selling their produce means that the local people are more motivated to plant new orchards than to cut them down (Uhlírova 2008: 41). Ownership patterns are rather complicated (See Fig. 2). The apple juice plant building and the land on which it stands belong to a non-profit organisation: The Veronica Foundation, based in Brno, which rents the plant to another local non profit organisation, White Carpathian Traditions, an association of local organisations, local councils and non-profits whose goal is to conserve local cultural and natural diversity. The profit from the enterprise can thus be recycled into projects of public interest. The building of the plant was financed by grants and a small ethical loan, the loan has been paid off and the plant is now financially self-sustaining.

As these and other examples (Johanisova 2005, 2007) show, eco-social enterprises in both Britain and the Czech Republic exist, are involved in worthwhile projects, and are very diverse in their goals, structures and activities. However, they remain marginalised in current social enterprise and social economy research and discourse.

One reason for this may be that, while terms such as „social enterprise“, „social economy“ or „third sector“ sometimes appear hard to define, this is much more true for „green“ or „eco“ social enterprises, which, far from having a definition, do not even have a commonly accepted name.

Let us make a first attempt at defining a social enterprise with an „environmentally friendly“ face (or „eco-social enterprise“).

Can the type of product or service which the enterprise sells be a clue to its degree of „green-ness“? In some social enterprise typologies we find „ecological firms“ as a separate category. These often include recycling and renewable energy projects. The goods and services which such enterprises produce can be seen to help the environment – to have a green bottom-line or produce a positive environmental externality. However, as two of my examples described above make clear, the main goal of an eco-social enterprise need not be as straightforward as the product or service it produces itself – the goal can be more complex and the product or service might only be a means to the goal of maintaining and enhancing natural capital. Similarly, the WyeCycle project mentioned above might prompt the question whether an enterprise which specialises in waste recycling only, without making attempts to minimise the waste stream, can still be seen as „eco-social“.

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2 At a recent conference, the announcement that the Corporate Social Responsibility charter of a large Czech coal mining company was singled out as the best from out of more than a hundred contenders brought unbelieving smiles to the faces of participants. On the other hand, in her book *The Pit and the Pendulum: A cooperative future for work in the Welsh valleys*, Molly Scott Cato (2004) makes a convincing case for a Welsh coal-mining producer co-operative as a social enterprise. All other coal-mines in the Welsh Valleys had been discontinued for economic reasons (cheaper coal from abroad, ie. essentially an example of „the race to the bottom“ as discussed by Korten 1995), bringing hardship and misery to local communities.
Returning to the example of renewable resource projects, we might think of the difference between the small locally-owned Danish wind-power guilds, as described by Douthwaite (1996), and large windfarms on the Irish coast owned by absentee American investors. Obviously, the “green” product is not enough, and, as in the social sphere, other...
considerations, such as the overall aims of the organisation, ownership structure, and profit distribution, continue to play a role.

Another perspective which can be applied when trying to decide if we are dealing with an eco-social enterprise is the environmental dimension of its production process. The main goal of the Stonesfield Community Trust near Oxford, which started operation in 1983, was to provide affordable housing to local families in an expensive locality (Johanisova 2005, 2007). In addition, a part of the houses were built to high environmental standard (especially good quality insulation). The insulation has meant lower energy bills and here, as elsewhere in the 70 projects I studied, a synergy between benefits for nature and for people emerged. This is one reason not to disregard the environmental dimensions of social enterprises. We might even ask ourselves, whether an enterprise is truly „social“ (i.e. friendly to people), if it is not at the same time friendly to nature? After all, however it might be obscured by a global economic system, human beings depend on nature for their survival. The dichotomy human/nature is thus in some ways artificial.

Let us now look at organic farms as a further possible example, apart from the Stonesfield Community Trust, of producers with an explicit commitment towards an environmental dimension in its production process. We might argue that organic farms are necessarily candidates for a green halo since they produce food without recourse to chemical fertilisers and pesticides, with the added bonus of humane treatment of animals. However, there exist organic farms, in the U.S. and elsewhere, which may use organic fertilizer, but grow their produce in large-scale monocultures (with negative impact on ecosystem diversity) and export it to all corners of the world (with negative impact on fossil fuel availability, burgeoning transport networks, global warming and air pollution).

Thus we can argue, along with authors such as Schumacher (1973, see also Johanisova 2007: 49-66), that two other criteria might be helpful in defining an authentic eco-social enterprise: „scale“ and „economic localisation“. It seems that the larger the scale at which a producer operates, the weaker the producer’s links to a particular neighborhood, region, or country, and, at the same time, the stronger the producer’s economic power, enabling the externalisation of costs to said neighbourhood, region or country (Korten 1995). „Economic localisation“ (Hines 2001), on the other hand, i.e. an attempt to use local resources, produce, employ locals and sell in a certain locality (the size of the locality is negotiable and depends on the character of the product), has the opposite effect. It leads to internalisation of externalities in the sense that the producer is in one place, bound to one community, must respect the laws of one country and finds it less easy to escape damage wrought on the environment. Also, economic localisation arguably means less costs in terms of transport miles, packaging, processing (food) and less evident costs to the environment in the sphere of marketing services. It can thus be seen to lead to efficiency in terms of other than financial inputs, such as materials and energy.

Reviewing the tentative criteria discussed above to pinpoint authentic eco-social enterprises, we have so far come up with three:

4 Of course, this simplified claim must be qualified by saying that in the real world, even a „localised“ enterprise might wreak havoc in a locality if the power is shifted in its favour (for example, as the only large employer in the region), if democratic traditions are weak, if corruption exists or if there is no education and information on environmentally and employment-friendly alternatives, etc.
1. **The goal of the activity** which often is, but need not be, identical with the „product“ or „service“ supplied by the enterprise. On the other hand, even a purportedly „green“ service need not be truly green if it supports wastefulness at a deeper level.

2. The **environmental dimension of its production process**. While this is obviously an important criterion, we need to ask how it links up with the goal of the activity (see footnote 2) and with the localised vs. globalised dimension and scale of the operation of the enterprise.

3. The **local or regional dimension (local production for local consumption, using local resources and local money flows)**. This aspect of the operation of a social enterprise is enshrined in some definitions of „social enterprise“, with the rationale of serving the local community (e.g. Borgaza and Defourny 2001: 17) or boosting local economic development. While the social and economic aspects are important (NEF 2003), the environmental benefits of „short-circuiting“ (Douthwaite, 1996) production of goods and services usually remain undiscussed.

As also pointed out above, we cannot easily lead a dividing line between such tentative environmental criteria and the other, more general criteria used to distinguish social enterprises from the mainstream, such as democratic and localised ownership patterns. While the social and environmental often work in synergy, as evidenced in the case of the Stonesfield Community Trust, above, a green sheen may not prevent an enterprise from very dubious social practices. For example in my own research in Britain (unpublished), I encountered an organic farming enterprise said to be utilising the labour of illegal immigrants.

Returning to the issue of trying to define an eco-social enterprise, the approach and definitions used in the literature are very much dependent on the paradigm favoured by the author. Brian Davey, who has coined the term eco-social enterprise, espouses a radical economic and ecological perspective. He distinguishes between social enterprises which operate on a growth economy model and those which are preparing for a coming economy of scarcity of energy and materials (see e.g. Kunstler 2005 etc.). In his perspective, it is important for all social enterprises to turn into eco-social enterprises, i.e. enterprises which have internalised and applied not only a „green“ ethos, but explicitly the implications of current and coming environmental constraints in their own economic goals and functioning. Here are some of Davey’s tentative ideas for a „limits to growth“ or „energy descent“ business model, i.e. a model useful for social enterprises in an age of increasing energy and materials scarcity:

1) In a no growth economy with social strains over the distribution of diminishing resources, enterprises will thrive which put a high premium on social solidarity, social justice and stakeholder involvement.

2) Only those companies are likely to grow, or even survive, which will help other organisations and households to “downshift” ecologically: Achieve the same level or adequate level of wellbeing with less throughput of materials and energy, e.g. selling bikes to replace cars, developing cycle paths rather than motorways.

3) These businesses would recognise that they need to operate with targets to reduce their own throughput of energy, sinks and materials per unit output.
4) Such businesses will need to be highly sensitive to not overshooting scale limits in their *fund service resources* if this means that *stock flow resources* will then be required at a rate that is environmentally destructive. E.g.: overselling and installing more wood heaters or biomass digesters - *fund service resources* - than can be fed with local wood or other renewable *stock flow resources*. The feedstock/stockflow material requirements for these wood heaters or biomass digesters would become a source of environmental depletion elsewhere, albeit probably invisibly, in a different location. Ensuring these problems do not arise means staying on top of the latest information, high ethical standards, etc.

5) In a world of increasing scarcity, standards, scale limits, tradeable quota and rationing arrangements will increasingly be put in place by state policy, based on research findings. Where enterprises run up against scale limits they must move sideways – diversify into a new area. You cannot keep fishing if the fish quotas are being met. Ideally, organisations will develop a keen sense of their scale limits and the sideways movement will become an explicit business strategy.

6) If the resources tied up in organisations can no longer be used to best effect there has to be a willingness to re-organisation and break up, so that scarce resources are not wasted in a very tight resource environment.

In addition, according to Davey the *eco-social enterprise* will be local rather than globally focussed, reducing the external dependency of its locality on fuel and material import needs, and a new economy will emerge which will be highly *design intensive* and *site specific*, to make best use of locally available resources of wind, solar, water, materials, soils, etc. (Davey in Johanisova 2007: 81 – 82).

Parrish (2007), operating from a more mainstream perspective, pays less attention to a discussion of what entails the actual environmental dimension of what he calls a „sustainability enterprise“, defining „sustainability entrepreneurship“ simply as „entrepreneurship that explicitly instills both environmental- and social- purpose dimensions in a single enterprise“.

Importantly however, he points to the „paradox of sustainability entrepreneurship“. According to the dominant economic paradigm, the sole goal of an enterprise must be profit maximisation, otherwise it will cease being competitive and be expunged from the market. However, there continue to exist enterprises (whether we call them social, eco-social or sustainability enterprises) which do not conform to this model and yet continue to survive or even thrive. How is this possible?

Parrish’s answer, backed by careful research of four such enterprises on four continents, is that such successful „sustainability entrepreneurs“ have different values from the mainstream. For example, they view their enterprises as means of perpetuating, rather than exploiting, resources (both natural and human). This in turn leads to distinct organising principles nad management practices from the mainstream, which Parrish analyses and categorises. He then suggests that with such „sustainability enterprises“, a new type of enterprise is emerging, with values and practices somewhere between the conventional enterprise, with its logic of opportunism and accumulation of capital, and the charity or non-profit organisation, with its primacy of altruism and distribution of capital. This third or in-between type of enterprise is
financially viable, yet is mutualistic rather than opportunistic, serving both „self“ and „other“ (Table 2 in Parrish 2007).

While he calls this third mutualistic approach a „new logic“ of organising, I would submit that it is in fact a very old organising logic, with roots in traditional societies’ land ownership patterns, commons regimes, medieval guilds as well as the more modern mutual and co-operative enterprises of which the ethos was hammered out in discussions spanning centuries (see e.g. Beer 1953, Burger et al 2001, Feierabend 1952, Kropotkin 1902, Neeson 1993 and others). What may be new is the explicit environmental ethos.

However, despite the laudable value systems and innovative (or age-old) organising logic of eco-social (or sustainability) enterprises, there remains the basic question of the „paradox of sustainability entrepreneurship“, which Parrish (2007) does not directly address: how do these enterprises survive economically in an environment where most other enterprises operate in a profit-maximising node, often producing negative externalities, thus being more competitive and being able to price their products and services more cheaply?

The answer is no doubt complex and depends on the locality, the type of service or product offered, on the special approaches, priorities and skills of the enterprises in question, and on the value preferences of their clients (of whom not all subscribe to the idea of price as the only equivalent of value – e.g. Fair Trade products buyers).

In my own research (Johanisova 2005: 60 - 77, 2007: 128 - 143), spanning 71 social and eco-social enterprises in Britain and the Czech Republic, I identified fifteen „economic survival strategies“, which often involved an important factor: the ability to rely on non-market capitals. By capitals, I mean capitals in a wider sense, i.e. not only finance capital, but also manufactured capital/premises, land, labour and information/know-how (see also Fig. 3). For example, the Hostetin apple-juice plant mentioned above benefitted from a start-up grant and ethical loan which enabled them to build and furnish the plant and still remain price-competitive. WyeCycle at the beginning of their activities used the premises and car belonging to the agricultural college in Wye. Other examined projects benefitted from using members’ shares as an alternative to mainstream borrowing, lower-than commercial rent from an ethical landlord, or from the work of volunteers in the initial stage or even a more mature stage of the enterprise life-cycle.

I believe that this concept of non-market capitals should be systematically explored and discussed as one way to help support the emergence of a financially viable eco-social economy. At a certain stage, the provision of non-market capitals by „secondary eco-social enterprises“ (Fig. 3) might become financially viable through reciprocal (financial) support by the proliferating „primary eco-social enterprises“ – the actual producers of the goods and services. Historical models include the system of agricultural co-operation in pre-war Czechoslovakia (Feierabend 1952) and the bank (Caja Popular) of the Mondragon co-operative system (Mathews 1999), founded and owned by its member co-operatives.

In full, these included: 1. personal savings and no-loans approach, 2. drawing on grant-support, 3. government procurement, 4. landfill tax and other levies, 5. loans from institutions and others, 6. direct selling and adding value, 7. marketing and buying groups, 8. share issue, 9. shrewd business sense, 10. financial and other support from family, friends, locals and like-minded others, 11. internal cross-subsidies, property and other commercial activities as source of income, 12. ethical landlords, subsidised rent and land in trust, 13. sweat equity: work-share, the volunteer ethos, low-paid and hard work, 14. low-cost operation as a complex strategy, 15. subsistence, barter and reciprocity as alternatives to the monetised economy.

Pioneered in Britain by Tim Crabtree of Local Food Links, Bridport, West Dorset.
Fig. 3: Eco-social economy model according to Tim Crabtree (unpublished). Inspired by the work of Jules Pretty (United Kingdom), the Institute of Community Economics (USA), and the Mondragon Co-operatives (Spain). Crabtree and colleagues have been actively promoting the creation of mutually dependent primary and secondary social enterprises in West Dorset (Britain).

A more recent vehicle to supply non-market capitals is the Wessex Re-Investment Trust in Devon, Britain, a community finance institution focused on the multilateral support of social and eco-social enterprise in the British South-West.

The proliferation of such second-tier enabling organisations would be a practical path towards building an economy which would be able to target the goals of „social and environmental inclusion“ (seen from a mainstream economic perspective) and of „embeddedness“ of the economy in the local community and natural environment (from the more radical economic perspective, as discussed at the beginning of this paper).

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