

“Sociality” and “Business Feasibility” of Japan’s Social Business

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Overview

In recent years, social business which works on social issues beyond the limits of government, charity organizations, and commercial enterprises has attracted attention. However, as social business has not been clearly defined, its actual status has not been known well. Therefore, Japan Finance Corporation Research Institute (JFCRI) conducted a questionnaire survey of small and medium companies and NPOs, etc., with the aim of understanding their business conditions and problems.

In the questionnaire, social business was defined as a business that satisfies the following two requirements: (1) it regards resolution of social issues as its mission and (2) it earns profit by conducting commercial activities. According to this definition, among the questionnaire's respondents, 75.1% of NPOs, 6.1% of companies, and 41.8% of general incorporated associations and business unions were working on social business.

Of all enterprises working on social business, new enterprises established in 2001 and thereafter account for 84.6%, due in part to the institutionalization of NPOs in 1998. As for business categories, welfare enterprises such as support organizations for people with disabilities and the elderly account for 58.2%. The percentage of enterprises with a female CEO is 31.6%, and enterprises in which women account for "75% or more" of all employees is 31.0%. As this shows, social business is considerably dependent on female labor force.

The annual sales of half of them are as small as 20 million yen or less. The percentage of enterprises that have a surplus without subsidies is only 25.0%. Accordingly, the feasibility of social business cannot be said to be high. However, as social business often receives subsidies, donations, and membership fees, 69.2% of the enterprises have a surplus as a whole, and there is not much difference between them and for-profit small and medium enterprises.

While the objective of social business is not economic profit but resolution of social problems, the percentage of the enterprises that have achieved their initial goal is only 47.3%, falling short of half of the total. In order to enable social business to be successful, it is important to involve citizens, enterprises, and government by informing them of social business activities and performing advocacy. Of course, it is also necessary to try new activities.

In light of these points, in supporting social business, it is necessary to establish an evaluation method thereof, make citizens and enterprises more understanding about and interested in social issues, and implement support measures according to the types of social business.

Table-1. Summary of Questionnaire Survey

1. Name of Questionnaire
"Questionnaire on the Relationship Between Social Issues and Business"
2. Date of Survey
August 2014
3. Target
From among the legal entities registered with the corporate database of Teikoku Data Bank, Ltd., we extracted 5,000 enterprises which fulfill either of the following two requirements.
(1) An unlisted enterprise employing the number of employees stipulated by the Small and Medium Enterprises Basic Act and which is a stock company, a limited company, a partnership company, or a limited liability company with annual income of 10 million yen or more
(2) A business union, general incorporated association, or specified non-profit organization (NPO) with annual income of 10 million yen or more
4. Method of Survey
Anonymous questionnaire forms were sent and collected by mail.
5. Number of questionnaire forms returned
2,562 from enterprises (1,021 from companies, 1,401 from NPOs, 134 from other legal entities; Collection rate=25.6%)

1. Understanding Social Business through the Questionnaire

Recently, social business¹ (SB) has been attracting attention globally as a form of business that resolves social issues. Although governments and charity organizations have conventionally striven to resolve social issues, it has become difficult for them to cope with issues due to severe financial constraints. Without an opportunity to gain adequate profit, for-profit enterprises will not become proactively involved in social issues. SB is expected to break through the limits of such existing organizations.

However, the reality of SB is unclear. In Japan, the Ministry of Economy, Trade and Industry has implemented two surveys on SB in which the determination of whether the target companies were engaged in social business was made arbitrarily by the secretariat in charge of both surveys.

Thus, JFCRI implemented the "Questionnaire on the Relationship between Social Issues and Business." The summary is shown in Table-1. Based on examples in other countries, there are three types of SB enterprises: entities in the form of non-profit organizations such as cooperative unions and associations, entities in the form of for-profit organizations including stock companies, and dedicated legal entities. In Japan, there is no legal entity exclusively for SB. Therefore, we surveyed specified non-profit organizations (NPO), general incorporated associations, and business unions as typical non-profit organizations, as well as various companies, as typical for-profit organizations.

The next issue is the definition of SB. Although the definition of SB varies depending on the countries and researchers involved and is not standardized, there are two commonly understood points. The first one is that SB enterprises have resolution of social issues as their own mission (sociality), and the second one is that they independently earn profit by conducting commercial activities (business feasibility).

Firstly, regarding business feasibility, since the sales of SB enterprises cannot be known in advance, targets of the survey were extracted on the condition that the annual income of the entire legal entity is 10 million yen or more, in order to exclude NPOs and general incorporated associations with little operating income. Even if the annual income was 10 million yen or more, alumni associations and trade associations were excluded. Next, for considering sociality, there is no definition of social issues, either. Therefore, the questionnaire presented the following four categories, in light of examples in other countries.

1) Issues of social exclusion

Issues of being excluded from society, for example, being unable to find employment or receive education for any reasons such as old age, physical and mental disabilities, and poverty

2) Issues of regional society

Problems regional societies are facing, such as depopulation, a declining birthrate, aging of population, childcare, and contamination of rivers and lakes

3) Issues of global environment

International environmental problems, such as global warming, marine pollution, and transboundary movement of chemicals

4) Issues of support for developing countries

Issues concerning economic/social development of developing countries, such as industrial development, and medical and educational diffusion.

Asking about legal entities' involvement in those social issues, we regarded a legal entity as an "enterprises working on SB," which chose any of the following answers: "established the legal entity for the purpose of resolving social issues," "running business to resolve social issues although it is not an objective of the legal entity," or "conducting business supporting legal entities and organizations that resolve social issues."

Table-2 shows the results of this question. Of all respondents, 45.6% were "enterprises working on SB." By type of legal entity, 75.1% of NPOs, and only 6.1% of companies are "enterprises working on SB." In other words, of all "enterprises working on SB," NPOs account for 89.8%, while companies and general incorporated associations/business unions account for only 5.3% and 4.9%, respectively.

However, even with the results of the questionnaire, it cannot be said that most SB enterprises are NPOs. While the number of NPOs is about 50,000 including ones without operating income, the number of companies is about 1,800,000. Despite the large weight of NPOs in the questionnaire, the number of SB enterprises conducted by companies may be larger than the SB enterprises by NPOs.

Although the questionnaire targeted only legal entities, non-judicial SB enterprises exist. Furthermore, there may be some legal entities which are addressing social business but are not included in the scope of the survey.

2. Results of the Questionnaire

Table-2. Involvement in Social Issues by Type of Legal Entity

(Unit: %)

	Established the legal entity for the purpose of resolving social issues	Running business to resolve social issues although it is not an objective of the legal entity	Conducting business supporting legal entities and organizations that resolve social issues	Enterprise working on SB	Working on resolution of social issues through business although it is not an objective of the legal entity and business	Working on resolution of social issues as CSR or charity	Not especially involved in social issues
NPOs (n=1,369)	67.2	5.3	2.6	75.1	9.8	2.0	13.2
Companies (n=1,002)	1.6	3.1	1.4	6.1	12.9	10.5	70.6
Others (n=134)	27.6	5.2	9.0	41.8	10.4	4.5	43.3
All legal entities (n=2,505)	38.8	4.4	2.4	45.6	11.1	5.5	37.8

Source: "Questionnaire on the Relationship Between Social Issues and Business" by Japan Finance Corporation (the same applies hereinafter).

Note: "Companies" indicates the total of stock companies, limited companies, and limited partnership companies (the same applies hereinafter).

(1) Issues addressed

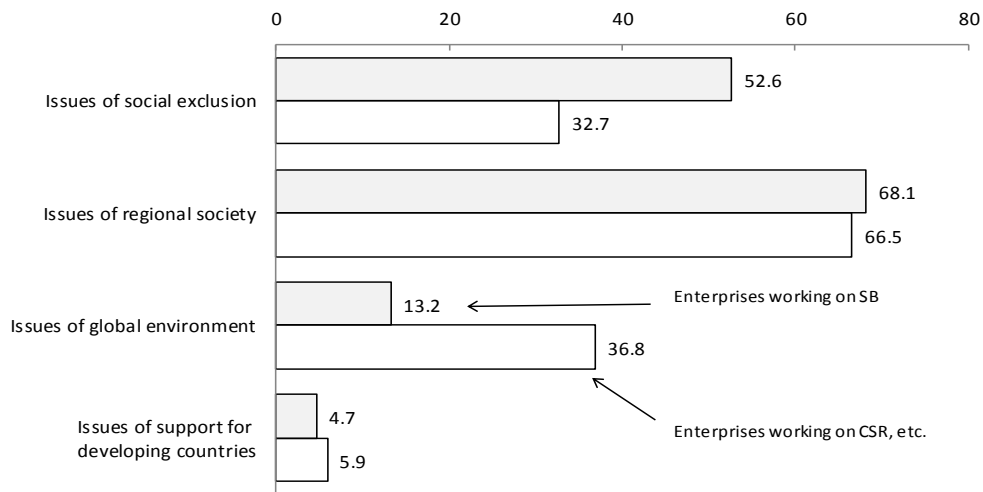
As for the categories of social issues addressed, "issues of regional society" is 68.1% and "issues of social exclusion" is 52.6%, exceeding 50%. Meanwhile, the percentages of "issues of global environment" and "issues of support for developing countries" are as small as 13.2% and 4.7%, respectively (Figure-1).

Just for reference, with respect to "enterprises working on CSR, etc." (enterprises which chose as an answer "working on resolution of social issues through business although it is not an objective of the legal entity" or "working on resolution of social issues as a CSR or charity"), while "issues of regional societies" is 66.5%, almost the same level as above, "issues of social exclusion" is 32.7%, lower than the 36.8% of "issues of global environment." The main reason why the percentage of "issues of global environment" is high is because enterprises conducting environmental improvement activities including acquisition of ISO14001 chose this answer. The fact that fewer companies are working on issues of social exclusion than ones working on environmental issues implies the seriousness of the social exclusion.

In the questionnaire, we asked the respondents to provide answers about specific details of SB. Among them, we tallied up answers in which targets and details of the business are clear. The largest number is 211 for support for persons with disabilities, followed by 79 for support for the elderly, 54 for parenting support, 49 for environmental business, and 48 for "business related to local revitalization".

Figure-1. Social Issues Addressed (multiple answers allowed)

(%)



Note: "Enterprises working on CSR, etc." refers to enterprises which chose, as an answer to the question about involvement in social issues, "Working on resolution of social issues through business although it is not an objective of the legal entity" or "Working on resolution of social issues as CSR or charity." The same applies hereinafter.

(2) Features of enterprises working on SB

1) Year of incorporation

Regarding the year of establishment of targets that selected "enterprise working on SB," 84.6% of them were founded "in 2001 or thereafter" (Figure-2). This is because of the significant influence of the promulgation of the Act to Promote Specified Nonprofit Activities in 1998, which grants NPO corporate status. Only in relation to companies, the rate of "in 2001 or thereafter" is only 18.6%, but contrarily, the rate of "prior to 1980" is 32.2%. As for the year the business was started, the rate of "in 2001 or thereafter" decreased to 51.0%. More than a few enterprises have been conducting activities since before they acquired were established. Anyway, compared to "enterprises working on CSR, etc." and "enterprises not working on social issues" (enterprises that chose "not especially involved" in social issues), there are definitely more young enterprises.

2) Business category

In relation to the business category of "enterprises working on SB," "welfare" is 58.2%, the highest percentage, followed by "service business" at 10.0% and "education, study support" at 5.8% (Figure-3.). However, as the above business category refers to the category of business which earns the most, it is not necessarily consistent with a category of SB.

For example, cases can be seen where, due to contraction of existing business and other factors, construction and manufacturing business operators start nursing-care businesses for the elderly, using material storage sites and old factory sites. The business category of such enterprises is often regarded as construction or manufacturing.

Figure-2. Year of Incorporation

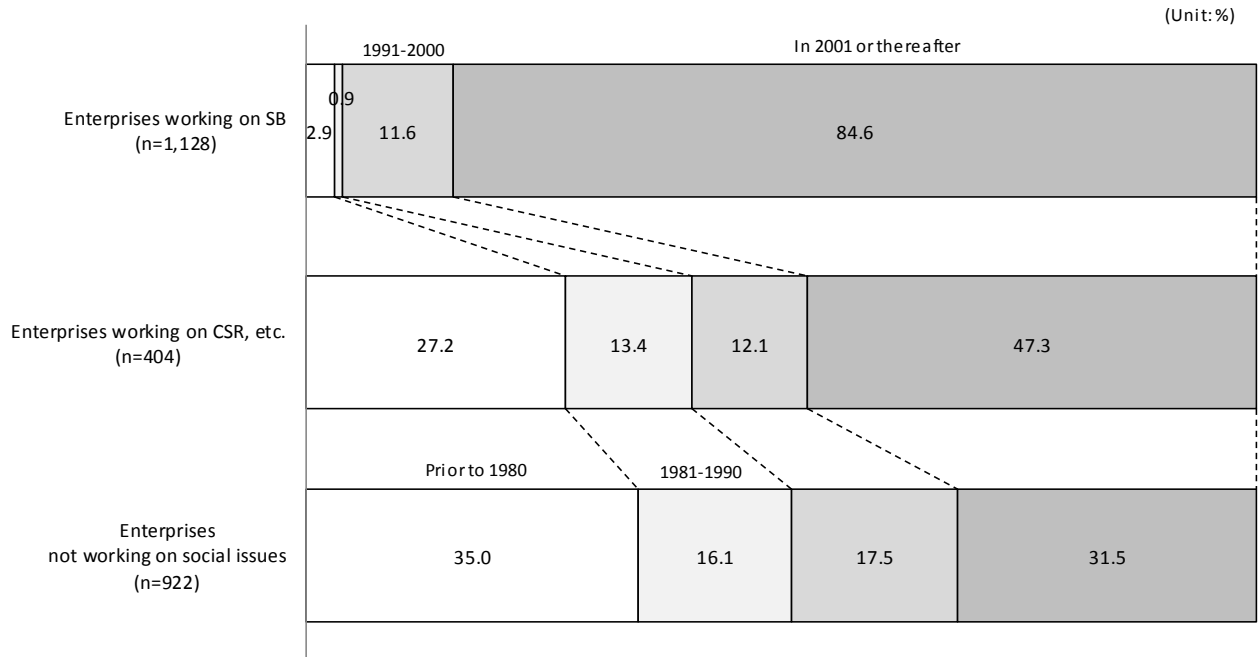
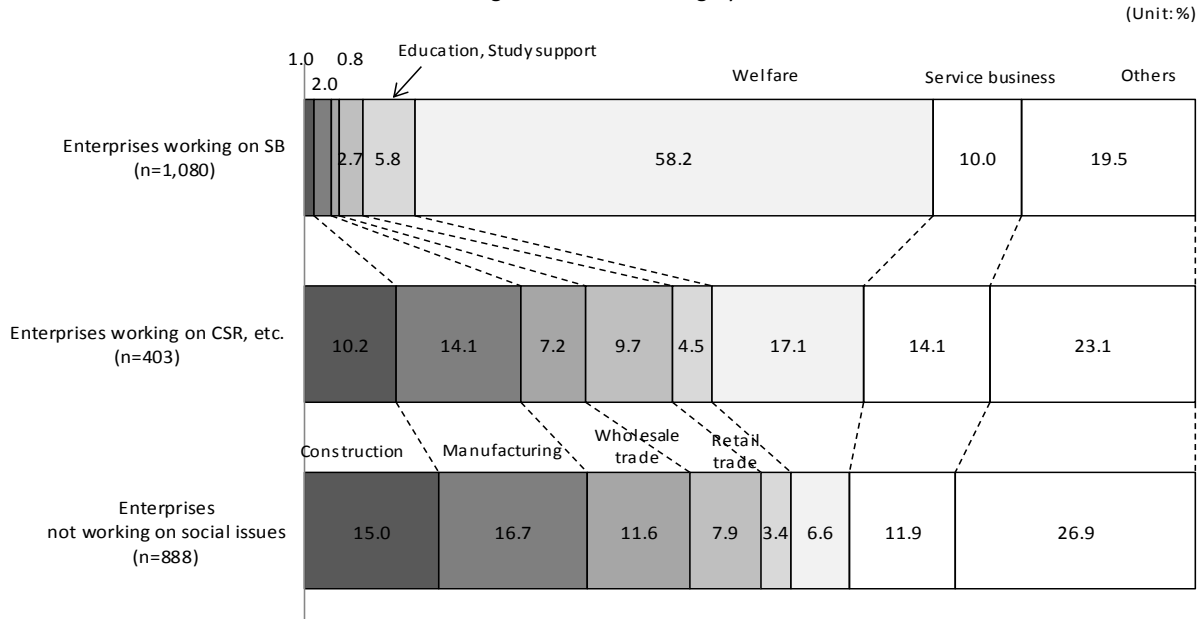


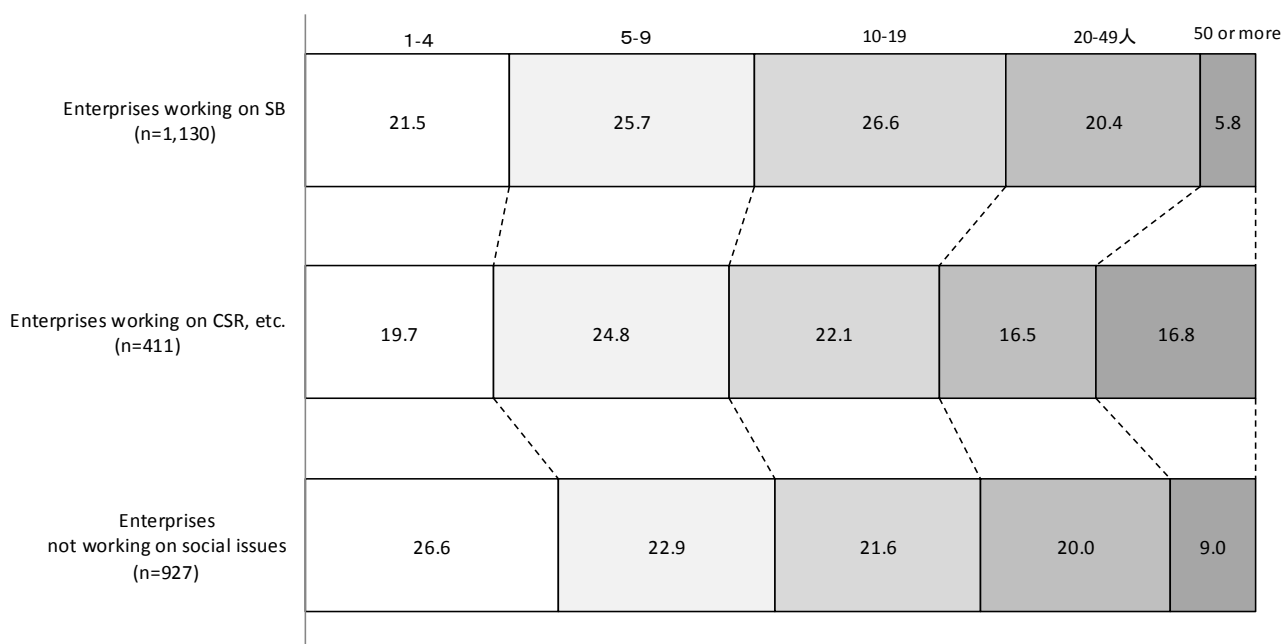
Figure-3. Business Category



In “enterprises working on CSR, etc.” and “enterprises not working on social issues,” the rates of enterprises whose business category is welfare are respectively 17.1% and 6.6%. Even if their business is similar, the first enterprise works on the business for public interest, and the other one enters the business as an opportunity to earn profit. Actually, of NPOs whose business category is welfare, 7.7% answered that they are “not especially involved” in social issues. It is difficult to judge whether their business is SB or not by superficial appearances.

Figure-4. Number of Persons Engaged

(Unit: %)



Note: The number of persons engaged is the total of representatives, paid officers, paid employees and staff.

3) Persons engaged

Looking at the distribution of the total number of persons engaged including the representative of the legal entity, paid officers, and other employees and staff, the rate of “50 or more” in “enterprises working on SB” is 5.8%, lower than in “enterprises working on CSR, etc.” Instead, rates of other classes are higher (Figure-4). Compared to “enterprises not working on social issues,” while the rate of “50 or more” is lower, the rate of enterprises with “1 - 4” persons is also low.

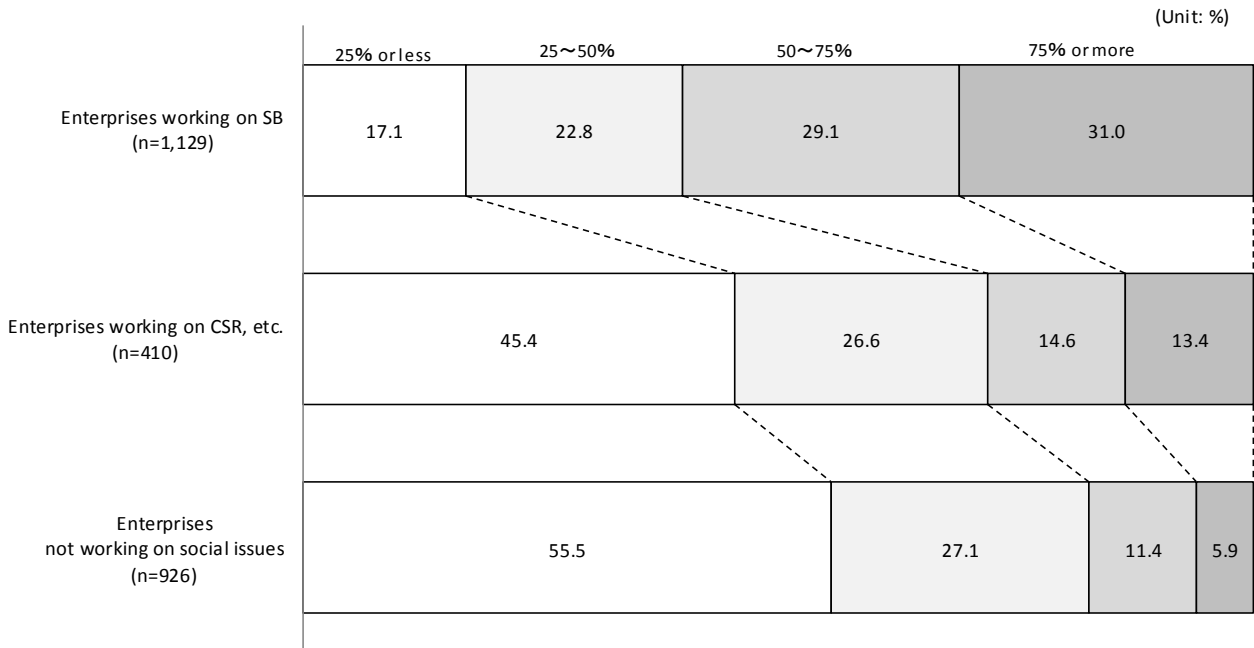
One of the reasons why the rate of “1 - 4” is low is because, in enterprises engaged in welfare which account for about 60% of all “enterprises working on SB,” the rate of “1 - 4” is as low as 12.8%. Meanwhile, the low rate of “50 or more” is a characteristic common to business categories other than welfare.

As for the rate of female persons engaged in “enterprises working on SB,” enterprises with “75% or more” and ones with “50 - 70%” account for 31.0% and 29.1%, respectively (Figure-5). Meanwhile, in “enterprises working on CSR, etc.” and “enterprises not working on social issues,” the rates of enterprises with “25% or less” are the highest, at 45.4% and 55.5%, respectively. The averages are 68.7% in “enterprises working on SB,” 38.7% in “enterprises working on CSR, etc.,” and 32.4% in “enterprises not working on social issues”.

As for the gender of representatives, the rate of female representative is 31.6% in “enterprises working on SB,” significantly exceeding the 11.6% in “enterprises working on CSR, etc.” and the 6.6% in “enterprises not working on social issues.”

The main reason why the rate of female persons engaged is high in “enterprises working on SB” is because there are many enterprises running welfare business in which women account for 83.9%. Even excluding welfare, the rate of female persons engaged is 49.9% on average.

Figure-5. Percentage of Female Persons Engaged



While it can be said that SB is creating employment for women, it can conversely be said that men depend on women for resolution of social issues.

(3) “Sociality” in the business operation

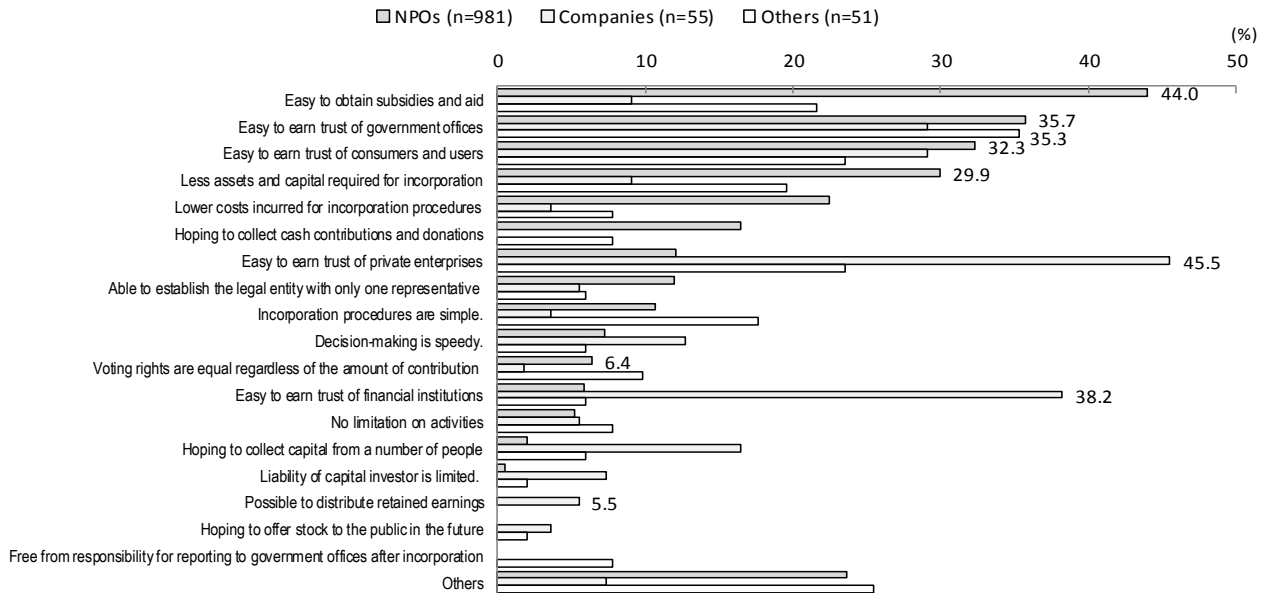
The sociality of SB includes not only the resolution of social issues as a mission but also “sociality” in the origin, decision making, and business procedures of the enterprise. In Europe and South Korea, this “sociality” is emphasized and has become a requirement for SB.

For example, as social aspects other than the mission of the SB, the following four items are included: “organizations established by a citizen group,” “decision making that is not based on capital ownership,” “participation of people affected by the activities,” and “restriction of profit sharing.” Certainly, these features are not often seen in general stock companies. Next, we consider the “sociality” of “enterprises working on SB” on the basis of the results of the questionnaire.

1) Corporate status

One of the criteria to easily distinguish “sociality” of an enterprise is its corporate status. For example, an NPO is required to have at least 10 members, and one person can cast one vote regardless of their amount of money contribution. Furthermore, retained earnings cannot be distributed. A general incorporated association cannot pay dividends and requires two employees at time of incorporation. However, as it is acceptable for the number of members to decrease to one after incorporation, authoritarian management would be possible. As with NPOs, business unions offer one-person-one-vote voting rights. They can pay dividends not according to the

Figure-6. Reasons for Choosing the Present Corporate Status



Note: Multiple answers are allowed.

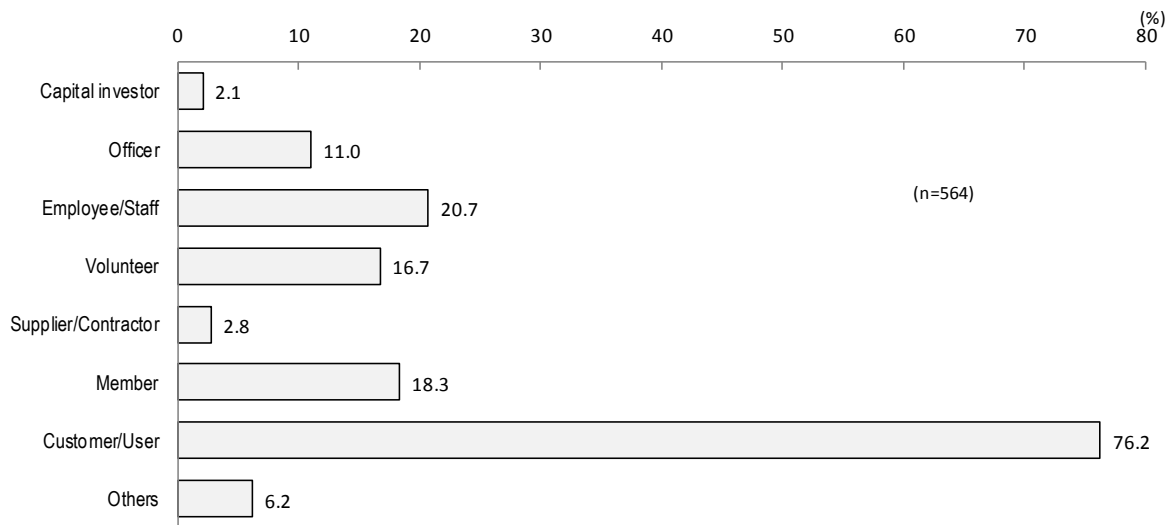
amount of contribution but according to usage the of the union’ s business, in principle. In the case of paying dividends corresponding to the amount of contribution, the amount is limited to 20% at most. On the other hand, a stock company is originally an organization that pays dividends according to the amount of contribution, and its voting rights are proportionate to the amount of contribution.

Looking at the constituent ratio by type of legal entity of “enterprises working on SB,” NPOs account for 89.8%. Accordingly, most of the “enterprises working on SB” are supposed to fulfill the requirements of being established by a citizens’ group, democratic management, and limitation of dividends.

However, it cannot be said that NPOs never aim at earning profit and that companies always pursue only profits. Thus, we investigated reasons why the “enterprises working on SB” chose their present corporate status. Among the reasons given by NPOs, “easy to obtain subsidies and aid” is the highest, at 44.0%, followed by “easy to earn trust of government offices” at 35.7%, “easy to earn trust of consumers/users” at 32.3%, and “less assets and capital required for incorporation” at 29.9% (Figure-6). The rate of “voting rights are equal regardless of the amount of contribution” is as low as 6.4%. It seems that external trust derived from “sociality” and economic merits are more emphasized than the “sociality” that NPOs have.

Meanwhile, among companies, the percentage of “easy to earn trust of private enterprises” is the highest, at 45.5%, followed by “easy to earn trust of financial institutions” at 38.2% and “easy to earn trust of government offices” at 35.3%. The rate of “possible to distribute retained earnings” is only 5.5%. The reason for choosing to be a company seems not to be because they aim at profits but just because it is easier to conduct business. The perspective of “a stock company is just aiming at making a distribution,” which is believed in Europe and U.S., is not necessarily true in Japan.

Figure-7. Relationship with Parties Concerned with Social Rejection



Note: Multiple answers are allowed.

2) Involvement of concerned parties

The requirements for “sociality” stipulated by the OECD include “participation of people to be affected by the activities.” This requirement is especially important when “issues of social exclusion” are handled. For example, it can be said that a company established by people with disabilities and an NPO managed by single mothers can fulfill the requirement for SB by definition. Now, Figure-7 indicates involvement of parties concerned with social exclusion, with regard to SB working on “issues of social exclusion.”

The rate of “customer/user” is the highest, at 76.2%, “employee/staff” is 20.7%, and “director” is 11.0%. In the case of an NPO, while an employee has voting rights, not many enterprises have management in which parties concerned with social exclusion are participating. However, in cases of handling, for example, people with intellectual and mental disabilities and homeless people, it may sometimes be difficult to have them participate in decision making.

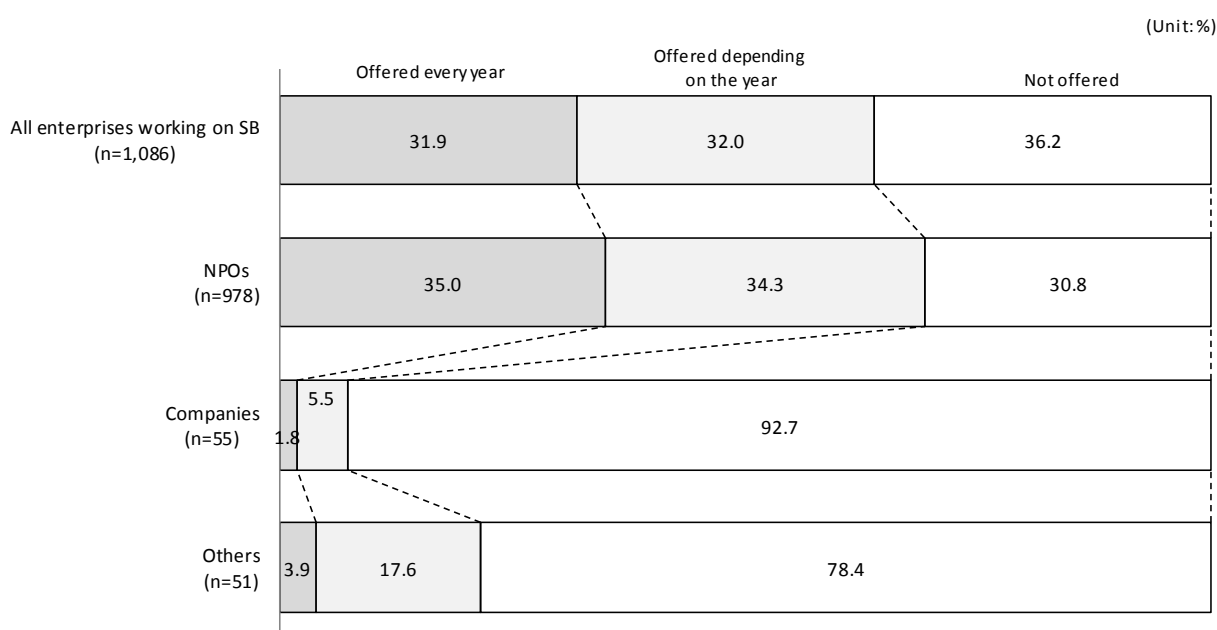
3) Use of gratuitous resources

Indices to determine whether an addressed issue is really a “social” issue or whether procedures of business have “sociality” include the presence or absence of donations, subsidies, and volunteer work force. This is because, if the business is self-serving, such gratuitous resources would not be provided.

In relation to the presence or absence of cash contributions and donations, of “the entire enterprise works on SB,” “offered every year” is 31.9%, “offered depending on the year” 32.0%, and “not offered” 36.2% (Figure-8). The presence or absence of cash contributions and donations depends considerably on the type of legal entity. The rate of NPOs which are “not offered” cash contributions and donations is 30.8%, compared with 92.7% for companies and 78.4% for other legal entities.

In the questionnaire, we asked questions about amounts of cash contributions and donations offered to the legal

Figure-8. Cash Contributions and Donations



entity over the last one year. As some enterprises conduct multiple business projects, the cash contributions and donations are not necessarily for SB. Of the enterprises which answered “offered every year,” the amount is 8.62 million yen on average, and the median is 0.53 million yen. Of the enterprises which answered “offered depending on the year,” the average amount is 1.33 million yen, and the median is 0.21 million yen. Among enterprises saying they are offered cash contributions and donations, most of them receive only a small amount of cash contributions and donations.

Finally, as for relations between enterprises which have received cash contributions and donations and their donors, the rate of “member of the legal entity” is the highest, at 61.8%, followed by “individual other than member” at 56.3%, “foundation” at 34.3%, and “other legal entity” at 24.9%. “Member of the legal entity” means a member of the NPO. While there are many private donors, some enterprises are provided with cash contributions by foundations and private enterprises

As for the presence or absence of volunteers, of “the entire enterprise works on SB,” “always present” is 25.7%, “present but not always” is 49.0%, and “absent” is 25.3% (Figure-9). The number of volunteers at the enterprises which answered “always present” is 26 on average but varies widely. The median is 10.

Regarding the presence or absence of volunteers by type of legal entity, the rate of NPOs that answered “always present” is 27.5%, and the rate of those that answered “absent” is 21.1%. Companies and other legal entities which answered “absent” account for 79.7% and 45.3%, respectively.

Finally, the rate of enterprises that have received subsidies from government and aid from private foundations, etc., is 68.4% of all “enterprises working on SB” (Figure-10). By type of legal entity, 72.3% of NPOs, 17.5% of companies, and 50.0% of other legal entities have received subsidies and aid.

Figure-9. Presence or Absence of Volunteers

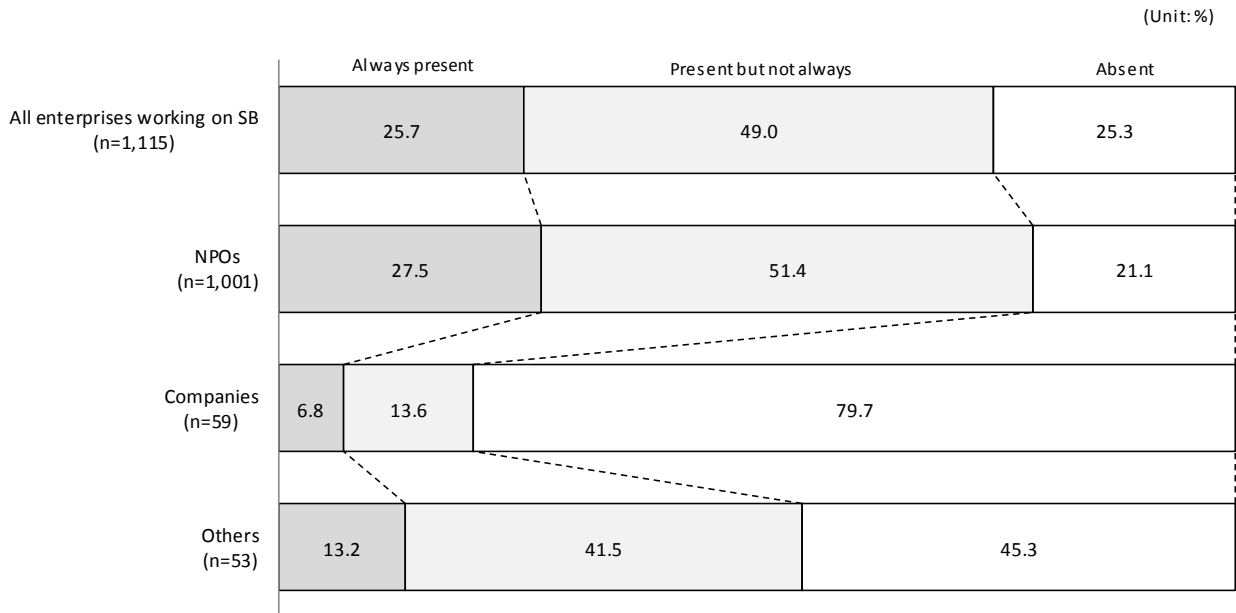
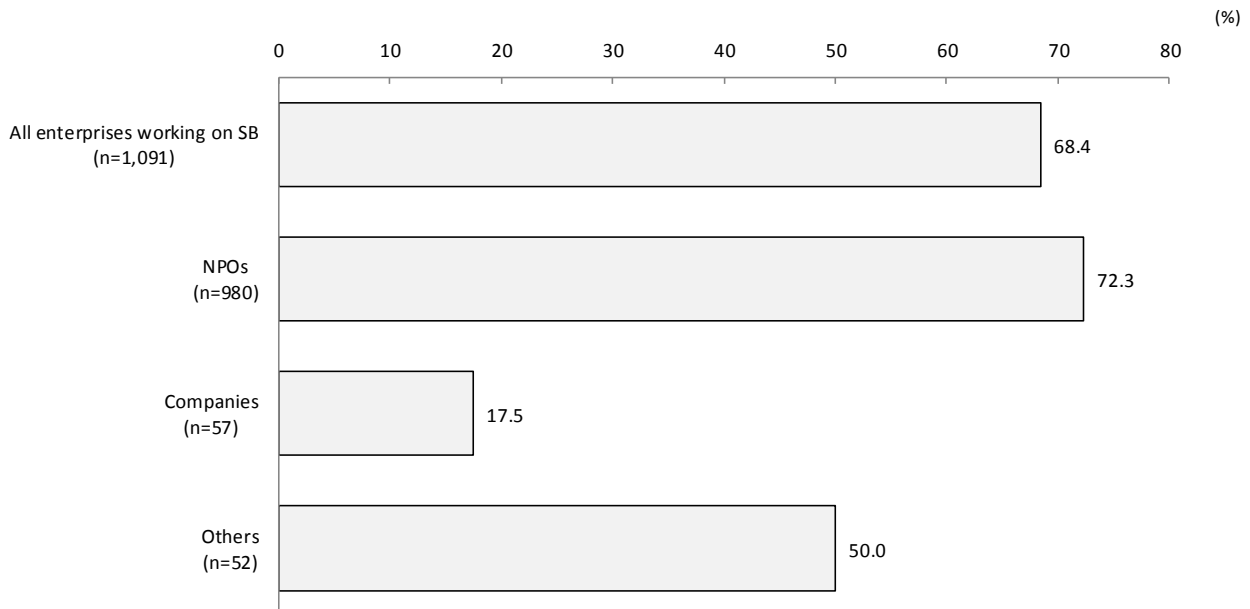


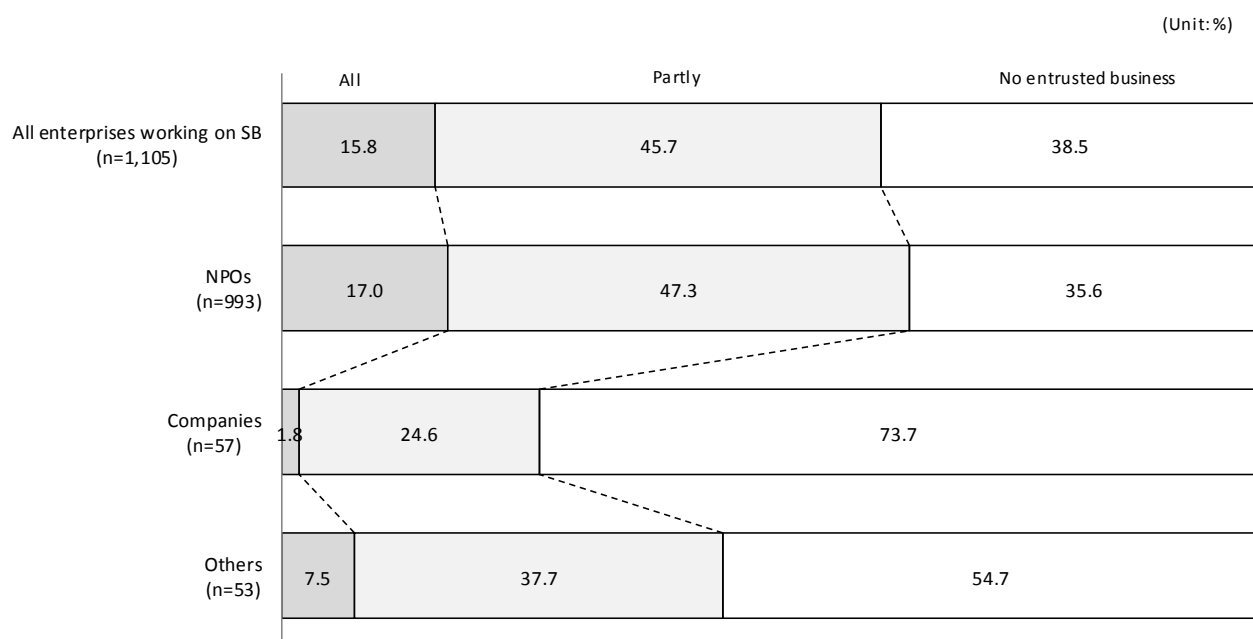
Figure-10. Percentage of Enterprises Receiving Aid and Subsidies



In addition to the amount of cash contributions and donations, the questionnaire survey included questions about the amounts of subsidies and aid which the enterprises received over the last one year. Since the subsidies and aid are granted to a legal entity as a whole, they are not necessarily used for SB. Among all “enterprises working on SB,” the average amount is 22.3 million yen, and the median is 10 million yen.

By type of legal entity, the average and the median are, respectively, 22.35 million yen and 10 million yen for

Figure-11. Business Entrusted by National and Local Governments



NPOs, 29.05 million yen and 4.5 million yen for companies, and 17.28 million yen and 4 million yen for other legal entities. Compared to cash contributions and donations in particular, a number of NPOs have received a large amount of subsidies and aid. There are many NPOs which chose their present corporate status because it is “easy to obtain subsidies and aid.” Many results seem to be in line with their expectations.

4) Relations with government

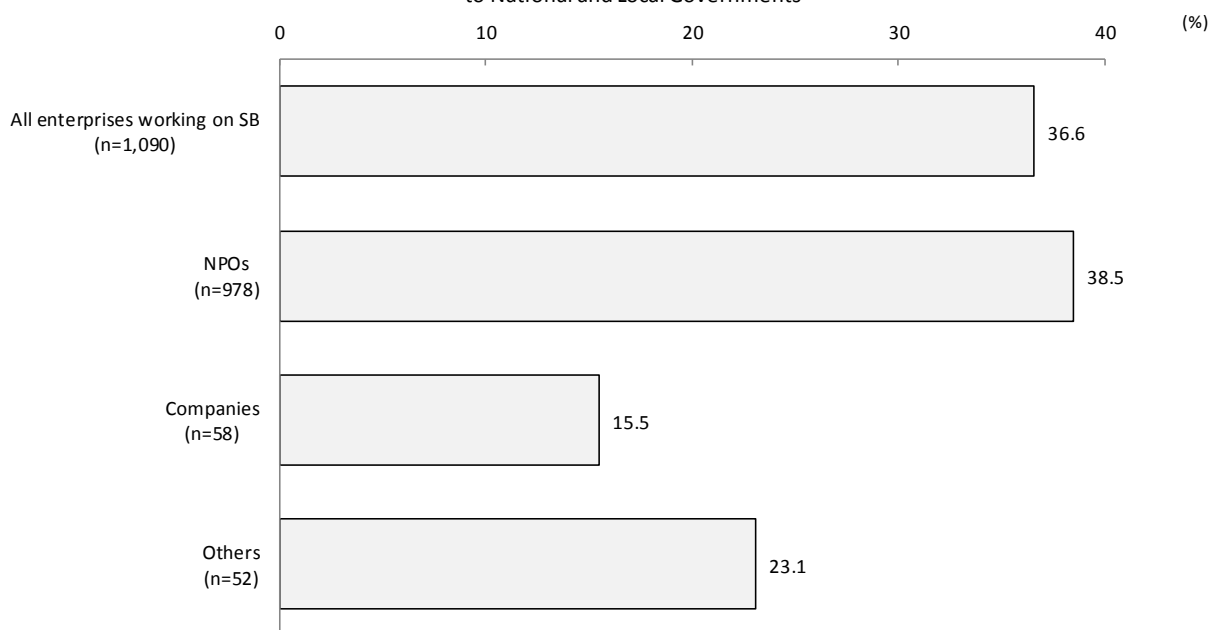
As resolution of social issues was originally the job of the government, the objectives of SB enterprises are often consistent with the objectives of the government. Accordingly, it is often preferable for SB enterprises to build cooperative relations with the government. Furthermore, if an SB enterprise can try to resolve the issues in cooperation with the government, its activities can be said to have “sociality.”

Although aid is a kind of cooperation from the viewpoint of having consistent objectives, being entrusted with business by the government is a more general form of cooperation.

In the question about the presence or absence of business entrusted by the government, 15.8% of all “enterprises working on SB” answered “all of SB is entrusted,” 45.7% answered “part of SB is entrusted,” and 38.5% answered “no SB is entrusted” (Figure-11). However, by type of legal entity, a majority (73.7%) of companies answered “no SB is entrusted” and 54.7% of other legal entities answered “no SB is entrusted.”

However, there are some problems with business entrusted by the government. For example, as business is generally entrusted by the government on a single-year basis, there is no guarantee that it will be continuously entrusted. Even if an enterprise’s ability to execute its duties does not change, an enterprise may be defeated by a newcomer in bidding, or the entrusted business itself may disappear for governmental reasons. When a large part of an enterprise’s revenues depends on business entrusted by the government, the risk of corporate bankruptcy

Figure-12. Percentage of Enterprises Providing Advice and Making Proposals on SB to National and Local Governments



increases. The same is true for enterprises that depend heavily on subsidies.

By putting too much emphasis on being entrusted with business, the enterprise may become just a subcontractor of the government. SBs should address social issues which the government cannot completely handle in a different way from the government. If enterprises excessively comply with the government's wishes, there will be no difference from the government directly handling the issue, and then the enterprises will not be able to step over the limitations of the government.

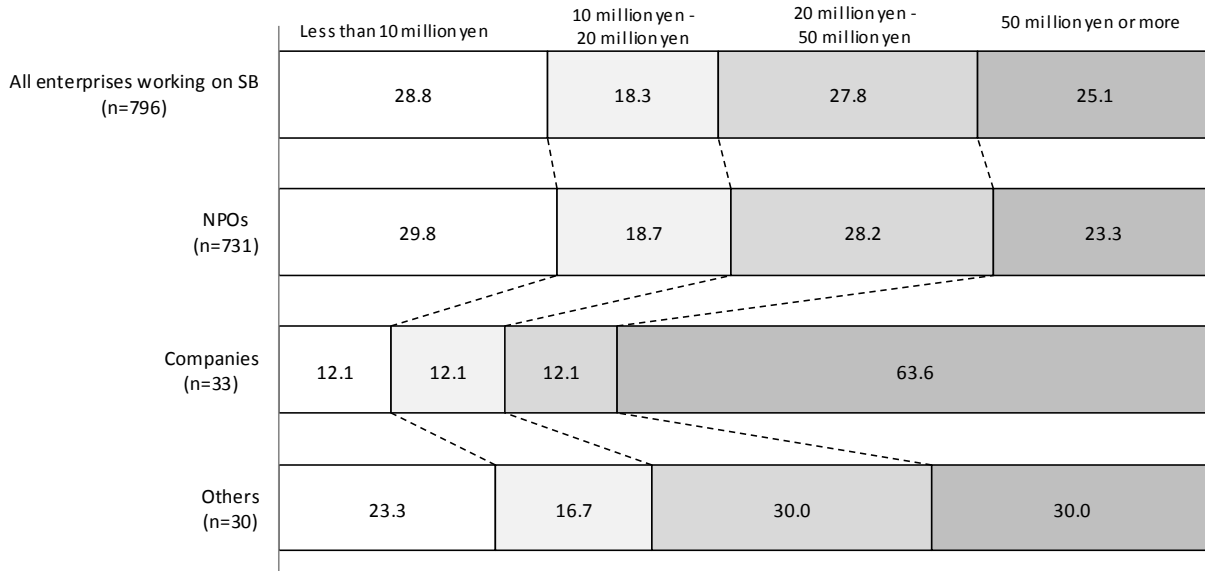
As a way to build a relationship with the government, advocacy such as policy recommendations and problem presentation is available. In order to resolve social issues, the government often benefits from private expertise by, for example, appointing a member of an advisory council or publicly inviting project plans. Also for SB, providing advice and making a proposal to the government could lead to obtaining consent from the government and citizens as well as having the government formulate policies useful for the business and amend policies which may interfere with the business.

Thus, the percentage of enterprises that have given advice and made proposals to the national and prefectural governments and local municipalities is 36.6% of all "enterprises working on SB" (Figure-12). By type of legal entity, the highest is 38.5% for NPOs, followed by 23.1% for other legal entities and 15.5% for companies. In consideration of the fact that an NPO has the property of being the main body for civil activities, the rate of such enterprises which conduct advocacy is low.

The percentage of enterprises that give advice and make proposals to the government varies depending on the social issues they are addressing. The rates are as follow: 49.3% for enterprises working on "issues of global environment," 49.0% for those working on "issues of support for developing countries," 40.1% for those working on "issues of regional society," and 35.4% for those working on "issues of social exclusion." Social

Figure-13. Sales from SB in the Last One Year

(Unit: %)



businesses act as spokespersons for people with disabilities, homeless people, the elderly needing nursing care and their families, and local citizens with child-raising anxiety who are excluded by society. SBs should more proactively conduct advocacy.

(4) Business feasibility of enterprises working on SB

It is difficult to determine concrete criteria for business feasibility within the definition of SB. Although Dr. Muhammad Yunus, a founder of Grameen Bank, said that a business should not be in the red even when the amount of subsidies and cash contributions is subtracted (Yunus 2010), such cases are the exception. In the definition stipulated by the OECD, it is enough to employ at least one paid employee, and there are no criteria stating that, for example, x% or more of revenues should be operating revenue. In South Korea, while operating revenues should exceed 30% of labor cost, a large amount of operating revenue is not necessary since only one paid employee is adequate.

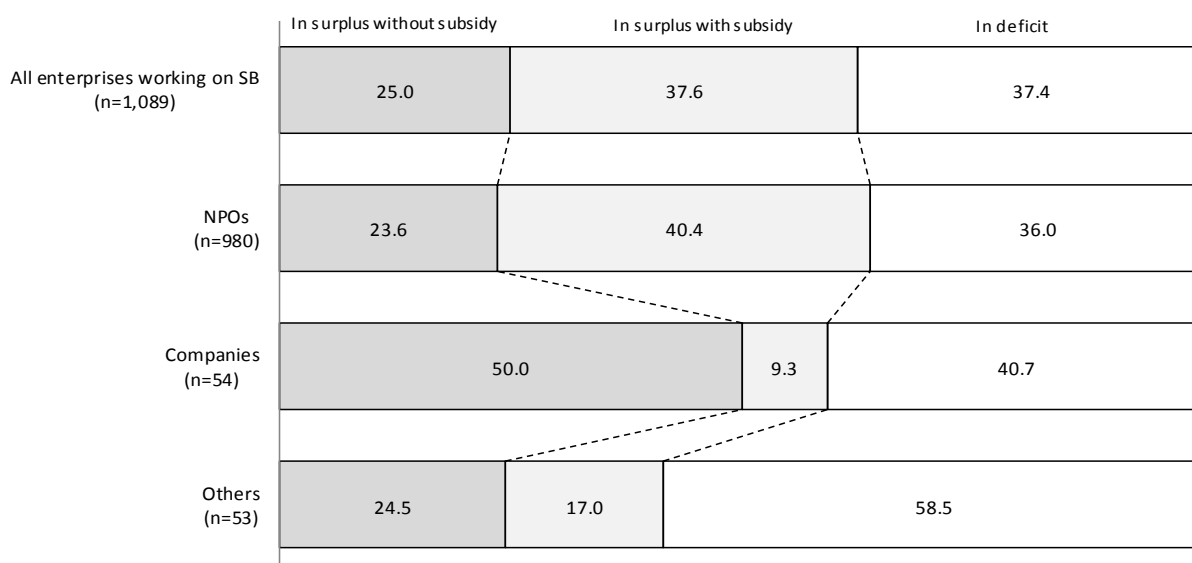
In consideration of “sociality” of SB, it is not necessary to cover all expenses with operating revenues, and receipt of cash contributions and subsidies is allowed. It can be said that the higher the operating revenue is, or the more expenses that can be covered with operating revenue, the higher the business feasibility is.

1) Sales

Looking at sales from SB over the last one year from the time of the survey, of all “enterprises working on SB,” 28.8% earned “less than 10 million yen,” 18.3% “10 million yen - 20 million yen,” 27.8% “20 million yen - 50 million yen,” and 25.1% “50 million yen or more” (Figure-13). The average and the median are respectively

Figure-14. Profitability of SB

(Unit: %)



69.36 million yen and 20.94 million yen. Briefly, about half of them earned 20 million yen or less.

Incidentally, of “enterprises not working on SB,” 70.7% earned “50 million yen or more.” The average and the median are, respectively, 386.62 million yen and 40.67 million yen. Sales of SB are often smaller than sales of ordinary small and medium enterprises.

By type of legal entity, while NPOs and other legal entities show a similar distribution with the entire legal entities, the percentage of companies which earned “50 million yen or more” is 63.6% with an average of 371.56 million yen. The distribution of companies is similar to that of ordinary small and medium enterprises. Although the number of companies surveyed was only 33, it can be said that SB in a form of company has higher business feasibility than other legal entities.

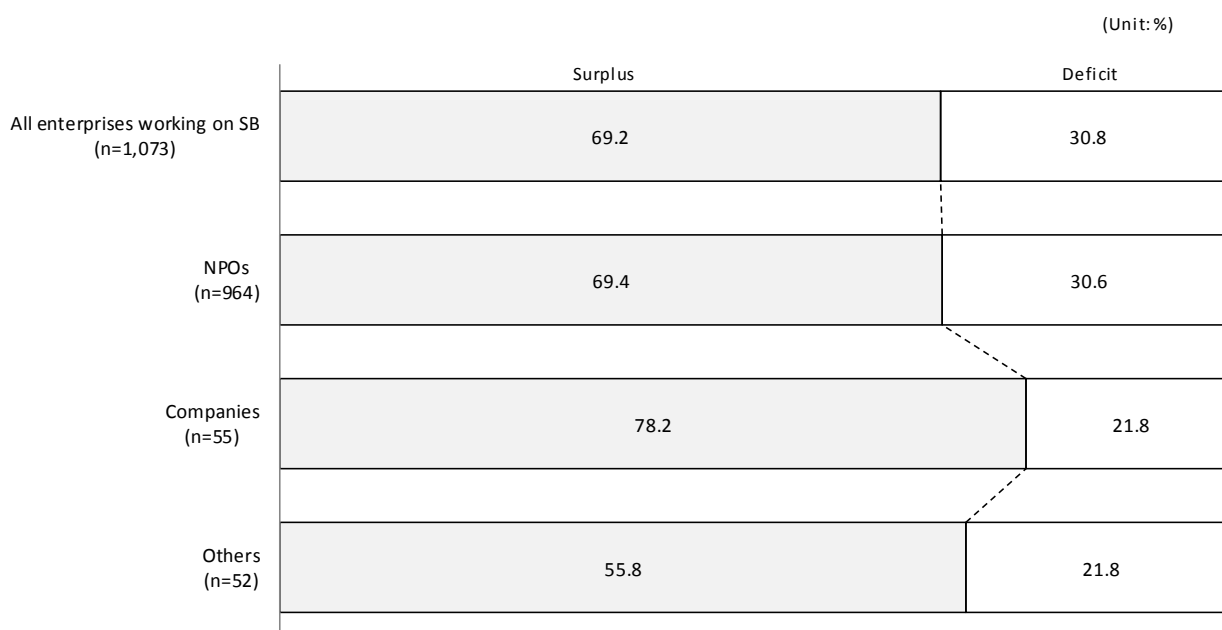
2) Profitability

The extent to which operating revenue can cover expenses can be judged from the profitability of SB. However, as enterprises working on social issues often can obtain a large amount of subsidies from the government, profitability including subsidies is reviewed herein. As shown in Figure-14, of all “enterprises working on SB,” 25% answered “in surplus without subsidy” and 37.6% answered “in surplus with subsidy.” In other words, when enterprises that have obtained subsidies are included, enterprises in surplus account for 62.6%.

In “enterprises not working on SB,” the percentage of enterprises that can pay for expenses only from operating income is 68.5%. Compared to this, it should be noted that the business feasibility of SB is generally low.

Looking at profitability by type of legal entity, NPOs have the highest “surplus with subsidies,” at 64.0%, and other legal entities have the lowest surplus with subsidies, at 41.5%. However, companies have the highest “surplus without subsidy,” at 50.0%. It can be said that more than a few companies working on SB have high

Figure-15. Balance of Payments of All Legal Entities



business feasibility.

In terms of profitability, it may be thought that an SB enterprise which would fall into the red without subsidies cannot be called a business. However, if the government tried to do the same thing as an SB enterprise, the amount of subsidies it provides would be hardly adequate to do so.

As shown in cases of, for example, supporting people with disabilities in getting a job and homeless people in their return to society, sufficient compensation for resolving social issues cannot always be paid by concerned parties. As costs for social issues should be borne by society as a whole, it is reasonable that the government provides subsidies, using the taxes that citizens paid. In other words, it is not right to decide that SB lacks business feasibility just because it is in the red without subsidies.

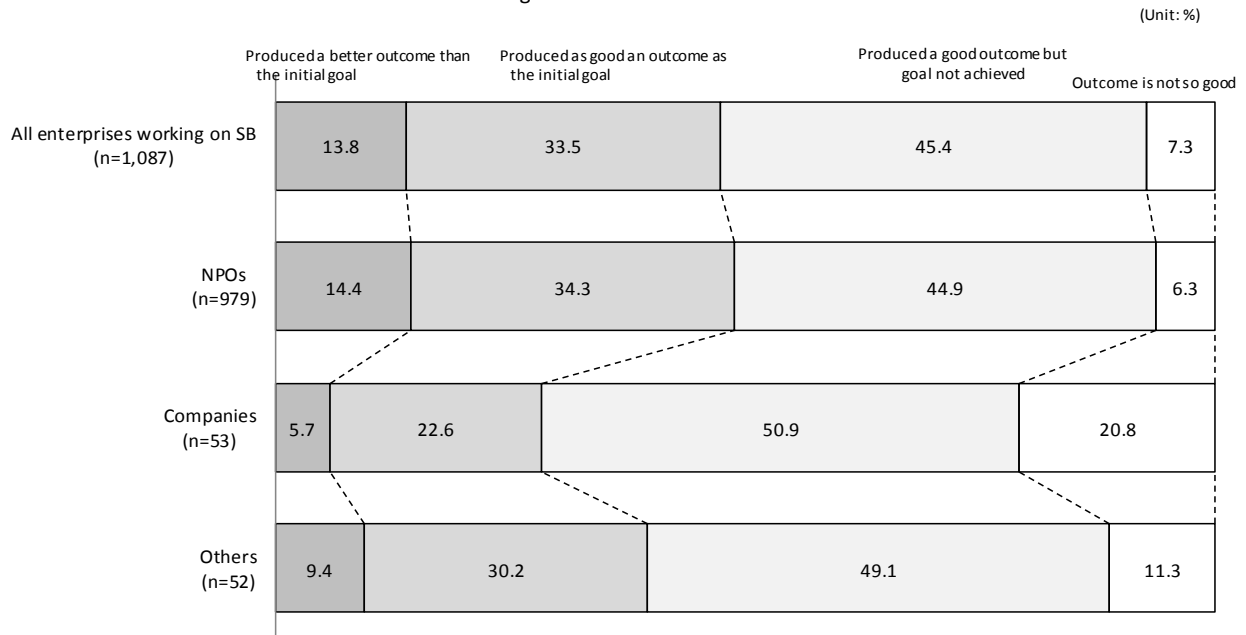
3) Balance of payment in all legal entities

As said before, not a few “enterprises working on SB” have obtained cash contributions and subsidies. In addition, 77.0% of NPOs and 42.6% of other legal entities have income from membership fees paid by each member. Some enterprises are running business other than SB.

Figure-15 shows profitability of all legal entities including all kinds of revenues. Of all “enterprises working on SB,” 69.2% are “in surplus.” Incidentally, the percentages of enterprises in surplus are 69.9% in “enterprises working on CSR, etc.,” and 72.1% in “enterprises not working on SB.” Looking at the balance of payment in all legal entities, there is no material difference between “enterprises working on SB” and other enterprises.

By type of legal entity, the percentage of companies “in surplus” is the highest, at 78.2%, and the percentage

Figure-16. Outcome of SB



of other legal entities “in surplus” is the lowest, at 55.8%. While not highly social, SB with a company structure has high business feasibility in terms of earning money for necessary costs by itself. In contrast, the business feasibility of highly-social NPOs is weak. As seen above, it is difficult to strike a balance between business feasibility and sociality.

(5) Results of SB and its factors

The mission of SB is to resolve social issues. Social businesses should be evaluated in consideration not of sales and profit, but the extent to which they achieved their mission. However, the degree of achievement of mission could not be quantitatively measured through our questionnaire. Therefore, we measured the degree of achievement of mission by asking whether the outcome is better than the initial target or not.

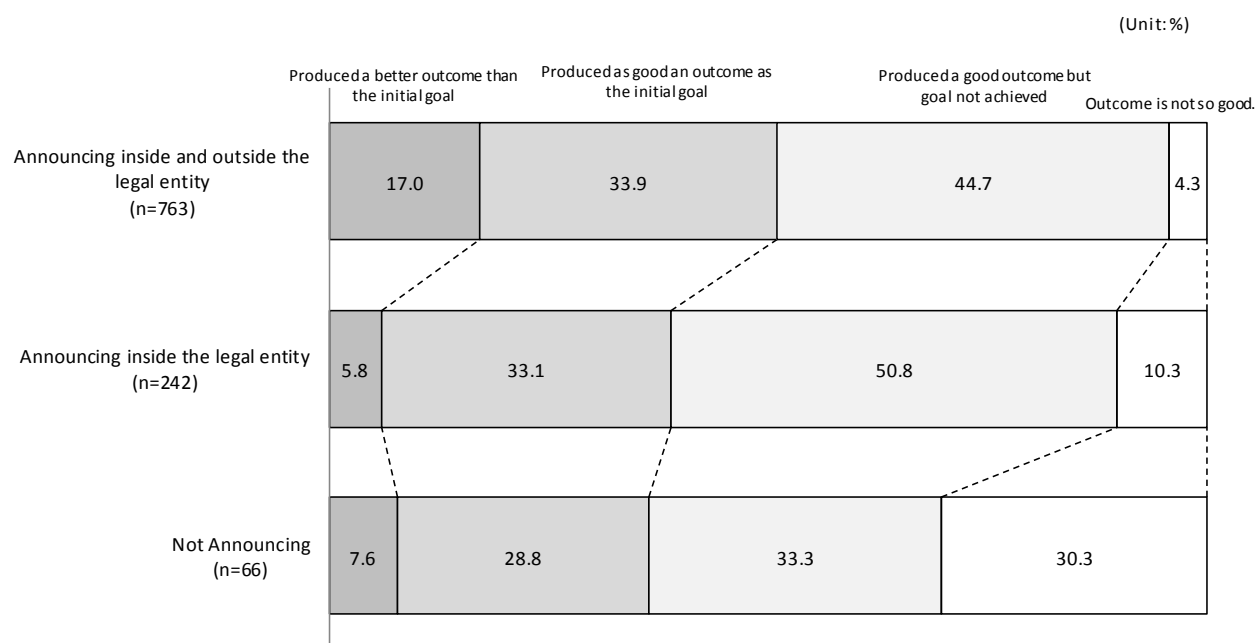
Of all “enterprises working on SB,” 13.8% “produced a better outcome than the initial goal.” Even if the 33.5% which produced “as good an outcome as the initial goal” are added to the above, the percentage of enterprises that achieved the goal is 47.3% or less than half (Figure-16).

Looking at results by type of legal entity, 50.9% of companies “produced a good outcome but did not achieve the goal,” and 20.8% answered “the outcome is not so good.” Accordingly, about 70% of companies did not achieve their goal. Of all other legal entities, enterprises which did not achieve the goal account for 60.4%. The percentage of NPOs which produced a good result is the highest.

Meanwhile, given that 51.2% of NPOs did not achieve their goal, it is not necessarily easier for NPOs to achieve their mission and more difficult for companies to do so. What influences the outcome of SB?

First, it is important whether SB involves citizens, enterprises, and the government, in addition to concerned parties to a problem. As problems SB addresses cannot be resolved independently by one individual, one family,

Figure-17. Relation between Outcome of SB and Announcement of Outcome



or one enterprise, they are recognized as social issues. Accordingly, it is necessary to involve as many stakeholders as possible. There are some methods to do so.

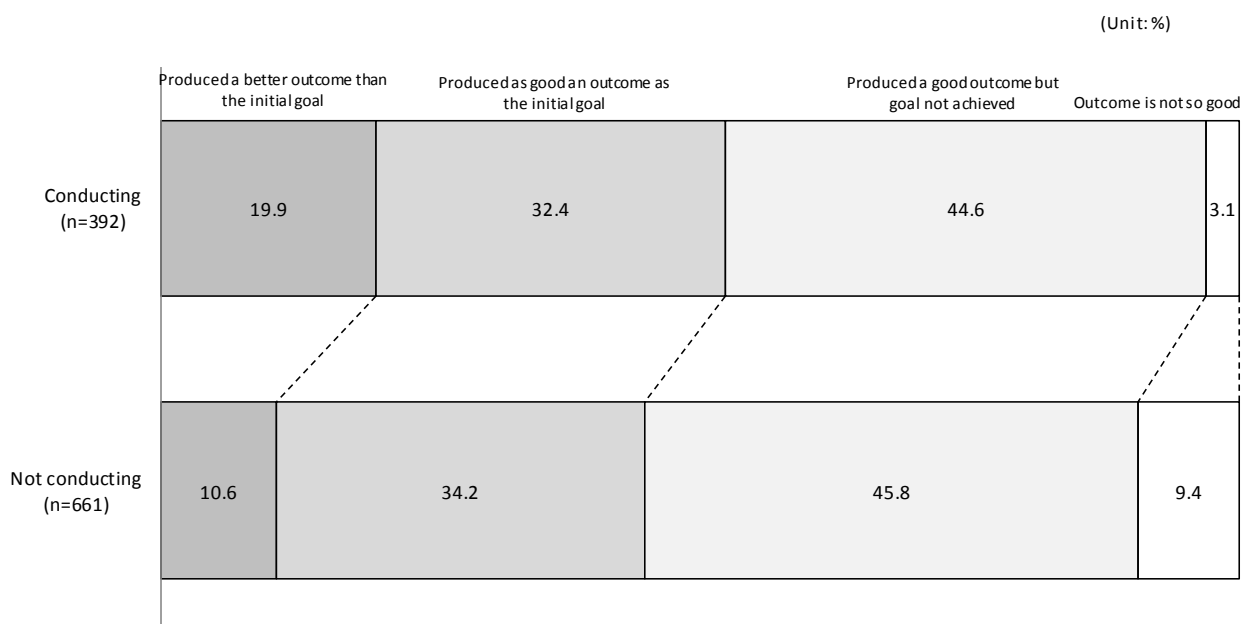
For example, the outcome of SB is announced outside the legal entity. Of “the entire enterprise works on SB,” 70.5% announce the outcome inside and outside of the legal entity, 23.0% announce inside the legal entity, and 6.5% do not announce.

Looking at the relationship between this and the outcome of SB, the percentages of enterprises which “produced a better outcome than the initial goal” are 5.8% for those announcing the outcome inside the legal entity, 7.6% for those which do not announce, and 17.0% for those announcing inside and outside the legal entity (Figure-17). In contrast, the percentages of enterprises whose outcome is not so good are 4.3% of enterprises announcing inside and outside the legal entity, 10.3% for those announcing inside the legal entity, and 30.3% for those which do not announce.

Although an enterprise may be reluctant to announce unsuccessful outcomes to outsiders, citizens and the government will not be interested in supporting it if they are not informed about it. The enterprise may be able to produce a better outcome with minor modifications, but it is not possible to even pick the brains of others unless they are informed. The same is true when informing insiders about the outcome. If they are working without knowing the outcome of their efforts, employees will not have an incentive to work diligently and make proposals. Even if the outcome is undesirable, enterprises should inform outsiders of it.

Another important method is advocacy to the government, which formulates various policies. Looking at outcomes of SB by enterprises conducting advocacy, “produced a better outcome than the initial goal” is 19.9%, and “produced as good an outcome as the initial goal” is 32.4%. Finally, 52.3% of such enterprises have achieved their goal (Figure-18). Meanwhile, in relation to enterprises which do not conduct advocacy, although 34.2%

Figure-18. Relation between Advocacy and Outcome of SB



“produced as good an outcome as the initial goal,” only 10.6% “produced a better outcome than the initial goal,” and 9.4% answered “the outcome is not so good.” Consequently, 55.2% have not achieved their goal.

As with educational and PR activities, if an outcome is not so good, there may not be many chances to carry out advocacy. However, when an outcome is not so good because of governmental policies and systems, or the outcome would be better with cooperation from the government, advocacy is essential. There are more than a few opportunities for advocacy, such as open recruitment of a member of an advisory committee and invitation of public comments.

In addition to announcing outcomes and advocacy, the methods of involving stakeholders include educational activities such as voluntarily holding seminars, contributing articles to magazines and newspapers, and fund raising to collect necessary funds through cash contributions and donations. Enterprises working on SB may select a method suitable to their own conditions.

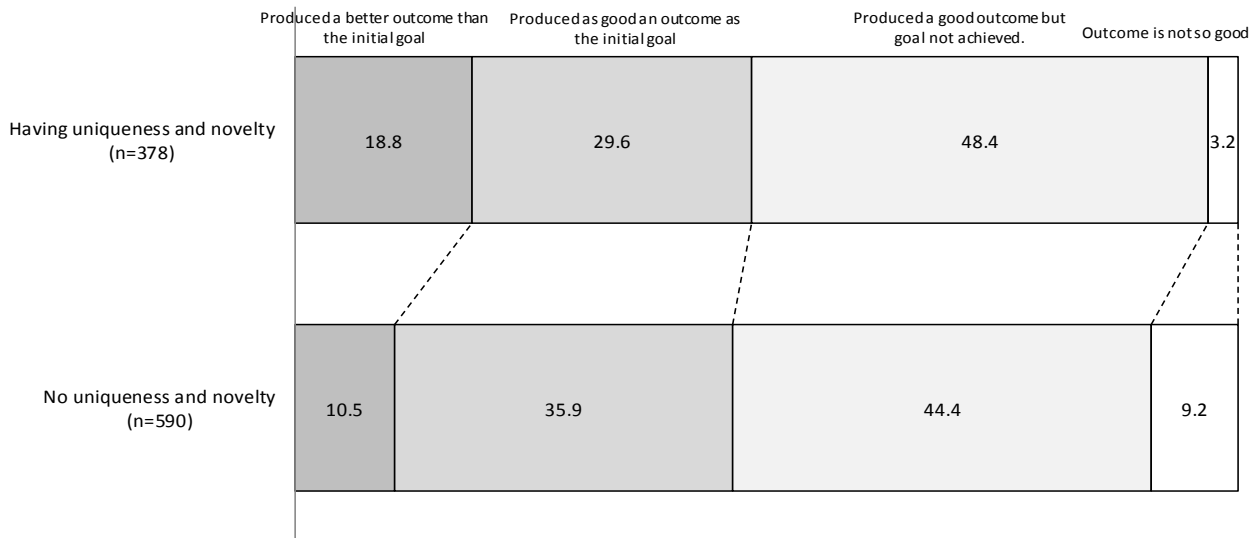
In consideration of the fact that it is difficult to resolve social issues, SB enterprises are required to make some efforts. In the questionnaire asking whether the enterprise is unique and novel, 38.8% answered “yes.”

Looking at relations between the existence of uniqueness and novelty and outcomes of SB, of all the enterprises that “produced a better outcome than the initial goal,” 18.8% answered “yes,” and 10.5% answered “no” (Figure-19). In contrast, of all the enterprises whose outcome is not so good, 3.2% answered “yes,” and 9.2% answered “no.”

However, of all the enterprises that “produced as good an outcome as the initial goal,” enterprises with uniqueness and novelty account for 29.6%, and the ones without those qualities account for 35.9%. Briefly, it is not necessarily impossible to achieve the goal without uniqueness and novelty. In order to facilitate the resolution of social issues, it is important not only that one company expands (scale up), but also that multiple companies

Figure-19. Relation between Presence of Uniqueness/Novelty and Outcome of SB

(Unit: %)



imitating successful models emerge (scale out). In this case, novelty and uniqueness are not necessarily required.

(6) Actual status of support for SB

1) Parties providing instruction and advice

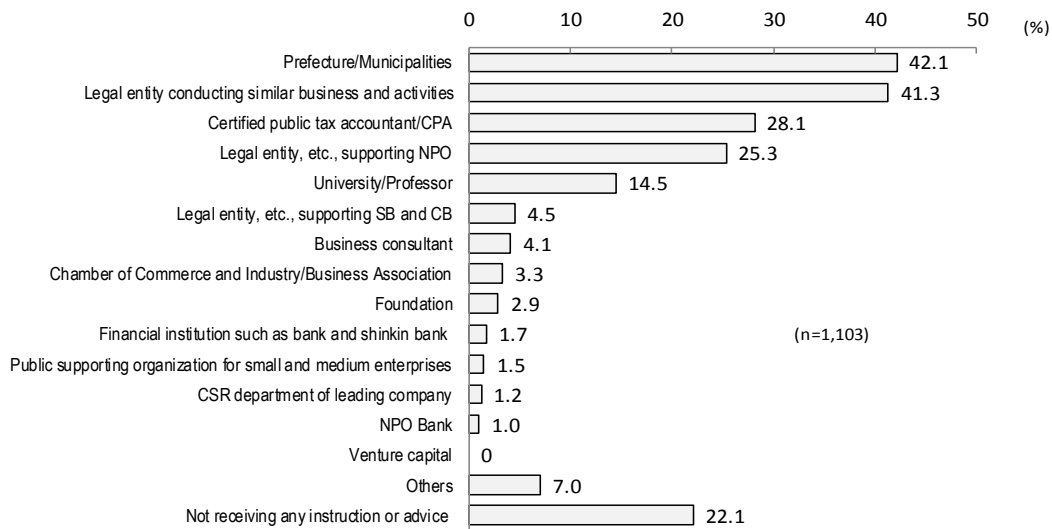
While many “enterprises working on SB” receive economic support such as aid and subsidies, not a few ones receive non-economic support. According to the questionnaire, the percentage of enterprises which do not receive any instruction or advice from a third party in order to promote SB is only 22.1%. In other words, approximately 80% of the enterprises receive some instruction or advice (Figure-20).

Of all parties providing instruction and advice, “prefecture/municipalities” account for the highest percentage, at 42.1%, followed by “certified public tax accountant/CPA” at 28.1%, “legal entity, etc., supporting NPOs” at 25.3%, and “university/professor” at 14.5%.

In relation to support for NPOs, most prefectures and municipalities have a department in charge of NPOs, such as a cooperative promotion section, which holds seminars, provides individual consultation, and conduct other activities. Some local governments have a contact person in place, not generally for civil activities but exclusively for social business and community business. This may be the reason that many enterprises answered “prefecture/municipalities.” However, of all the companies, only 12.1% answered “prefecture/municipalities.” In contrast, companies which do not receive any instruction or advice account for 44.8%.

Despite having no comparative data, it appears that more SB enterprises answered “university/professor” than did general enterprises. The reason for this may be that university professors often hold positions as directors of NPOs and general incorporated associations; and moreover, some universities choose SBs and NPOs for internships for students, and offer courses than involve starting SBs..

Figure-20. Parties Providing Instruction and Advice (multiple answers allowed)



Note: CB stands for Community Business.

2) Effects of instruction and advice

While many SB enterprises receive instruction and advice, how effective they are is not clear.

Looking at the relation between whether an enterprise receives instruction or advice from a third party or not and the outcome of the SB, the percentage of enterprises which do not receive any instruction or advice “whose outcome is not so good” is 10.1%, and the percentage of enterprises which do receive instruction or advice “whose outcome is not so good” is 6.2%. Thus, receiving some instruction or advice seems to make it easier to achieve a good outcome to some extent (Figure-21). However, the percentage of enterprises that “produced a better outcome than the initial goal” and those that “produced as good an outcome as the initial goal” is somewhat higher among enterprises which “do not receive any instruction or advice”.

Some reasons why the instruction and advice have not necessarily led to good outcomes for SB can be conjectured. For example, some “enterprises working on SB” may lack the ability to understand advice and put it into practice, or they may receive advice on legal and tax affairs which is not related to the outcome of SB.

However, it may be that the parties providing instruction and advice may lack knowledge and expertise. In order to make an SB enterprise successful, sociality that involves the government and citizens is essential. In addition, business feasibility is needed to compete in the market and earn profits. Organizations supporting SB are required to have expertise in both civil action and business activities. As social business has begun to attract attention only in the last decade, expertise on support may not be sufficiently accumulated.

(7) Required support

1) Assessing outcomes of SB

A goal of SB is to resolve social issues to make society as good as possible. However, it is difficult to know the

Figure-21. Relation between Instruction/Advice and Outcome of SB

(Unit:%)

	Produced a better outcome than the initial goal	Produced as good an outcome as the initial goal	Produced a good outcome but goal not achieved	Outcome is not so good
Receiving instruction or advice (n=824)	13.7	33.4	46.7	6.2
Not receiving any instruction or advice (n=237)	13.9	35.4	40.5	10.1

extent to which the social issues were resolved and how much the enterprises have contributed to the society. Therefore, even if an enterprise knows the importance of externally announcing the outcomes of SB that it operates, because it is difficult to confirm whether its own activities are effective or not, it is also difficult to gain the understanding of people outside the SB. Especially in the case of commercial activities that are in deficit, the value of the SB and the necessity of supporting it would be difficult to convey unless its degree of contribution to society could be shown.

When the government and intermediate organizations supporting SB cannot find out the effects of their support, problems may occur in which necessary supports are stopped and unnecessary support continues. Furthermore, when they have to choose an SB enterprise to support under a limited budget, they cannot do so.

In order to resolve these problems, a method for assessing outcomes of SB is required. As an example in this context, an outcome does not mean how many people with disabilities received occupational training from an enterprise but rather how many of them could get a job as a result of implementing the training.

However, outcomes cannot always be measured quantitatively. In the case of job assistance for a person with a disability, as a result of obtaining a job, he/she would also become self-confident and his/her family would be happy. An enterprise which employs a person with a disability may make managerial efforts to create a comfortable working environment that also benefits people without disabilities.

Even if some outcomes can be measured quantitatively, the measured units may be different, i.e., the number of people in a certain SB and the recycle rate in another SB. Furthermore, even with the same quantity of outcome, costs and workload will not always be the same.

A trend toward understanding the outcomes of SB by converting the outcomes into money has been spreading

mainly in the UK. This method is called SROI (social return on investment), which is based on the cost-benefit analysis often used to decide public investment.

SROI is a benchmark indicating, for example, how many yen were gained in social return for an investment of 1 yen. When SROI is 1 or more, the SB has produced an outcome exceeding the investment. When it is less than 1, the investment is not recovered.

In terms of SROI, investment means the entire cost of supplying products and services, including not only money such as aid and loans, but also labor provided by volunteers. Although volunteer work is free, it can be converted into money by considering how much it would cost to purchase the same work in the market.

Social value is the sum of changes happening to stakeholders through SB activities. For example, if an unemployed person can successfully obtain a job with the support of SB, the government will also benefit through an increase in tax income. If a person who has received welfare can be employed, the costs of social relief and medical costs will disappear.

Furthermore, thanks to the supported person being employed, his/her family will become happy and smile. In the UK, although the smile itself cannot be converted into money, counseling fees are added to the social return, on the supposition that he/she had counseling.

In this manner, social value is calculated after identifying the stakeholders affected by SB and confirming the changes which occurred to each of them. Of course, although not all outcomes can be converted into money, listing of the outcomes should be conducted.

As considerable time and labor is required to calculate SROI, it is difficult for an enterprise working on SB to calculate it alone. Also in Japan, there are some organizations that calculate SROI. However, as it is very expensive, enterprises working on SB hardly place orders for the calculation. Organizations that calculate SROI do not have sufficient track records and expertise, either.

In the UK, based on a three-year government research project to establish a method of SROI, the Cabinet Office published “A Guide to Social Return on Investment”² in 2009. Similar efforts are desirable in Japan.

2) Increasing interest in social issues

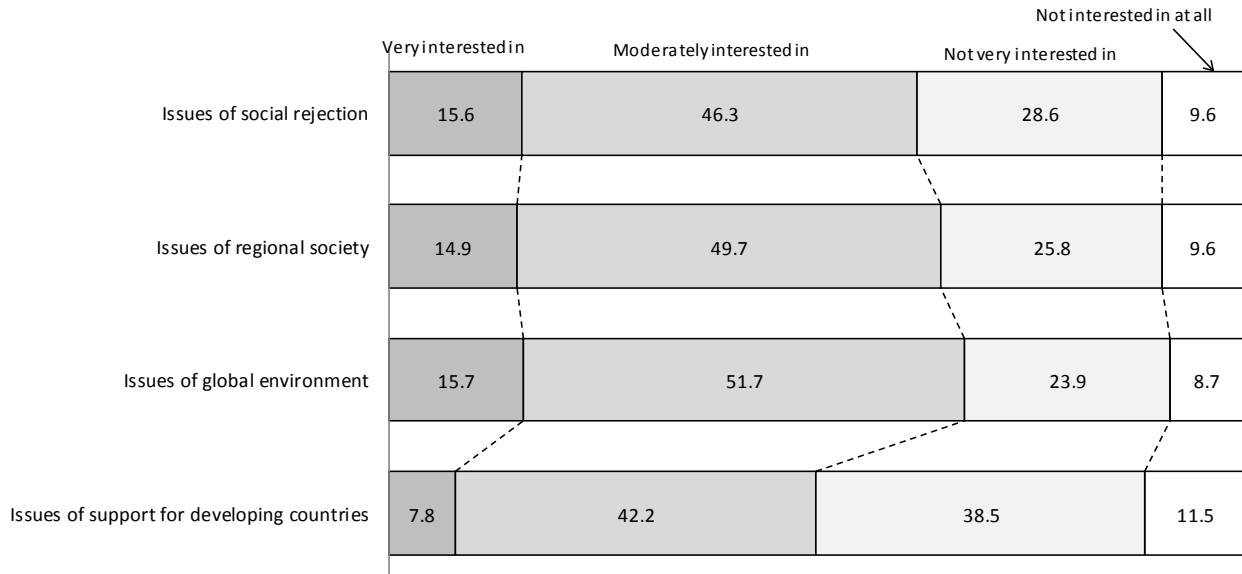
As a matter of fact, not many people think every person and enterprise should be interested in social issues and their resolution. Figure-22 shows the results of questions on interest in social issues in an online survey called “Questionnaire on Social Business/Community Business” conducted for people ages 15 to 64 by JFCRI.

The percentages of people who answered that they are “very interested in” social issues are 15.6% regarding “issues of social exclusion,” 14.9% regarding “issues of regional society,” 15.7% regarding “issues of global environment,” and 7.8% regarding “issues of support for developing countries.” Looking at any of these issues, it cannot be said that people are very interested in social issues. When people “moderately interested in” are included, 60% of the respondents are interested in social issues. In “issues of support for developing countries,” the total percentage of people “very interested in” and “moderately interested in” is still 50.0%.

By gender, while there are few differences in the percentages of people “very interested in,” the percentage of men who chose “not interested in at all” is higher than that of women in all issues. For example, while the

Figure-22. Interest in Social Issues

(n=3,143, Unit:%)



Source: "Questionnaire on Social Business/Community Business" conducted by Japan Finance Corporation (July 2014).

Note: Web questionnaire answered by a total of 3,143 men and women ages 18 to 64.

percentage of women who answered “not interested in issues of support for developing countries at all” is 8.4%, the percentage for men is 14.6%

By age, the percentages of people in their 40s and 50s who answered “very interested in” “issues of social exclusion” and “issues of regional society” are lower than for other generations. For example, people who answered “very interested in” “issues of social exclusion” amounted to 11.7% for those in their 40s, 22.0% for ages 18 to 19, and 19.2% for those in their 20s.

The percentages of people ages 18 to 19 and ages 60 to 64 who answered “very interested in” “issues of global environment” are higher than others. Meanwhile, the total percentage of people who answered “not very interested in” and “not interested in at all” was the highest among people ages 20 to 29, at 38.9%. The higher the age is, the lower the total percentage becomes. The total percentage is 19.9% for ages 60 to 64.

The percentage of people who answered “very interested in” “issues of support for developing countries” is the highest for ages 18 to 19, at 16.5%. The higher the age is, the lower the percentage becomes. The percentages for people 40 and over are almost unchanged. The percentages of those ages 18 to 19 and those in their 20s who answered “not very interested in” are slightly lower. There are few differences among the percentages for people in other generations. The percentage of people in their 20s who answered “not interested in at all” is 17.0%, the highest of any age group. The higher the age is, the lower the percentage. The percentage for people ages 60 to 64 is 6.2%.

As seen above, it cannot be said that citizens are very interested in social issues. As SB has to cope with such lack of interest, it becomes important to conduct educational activities and to disseminate the outcomes of

activities. Citizens' interest cannot easily be increased only by SBs. The government should proactively carry out educational activities on its own.

To be more specific, holding seminars and symposiums in cooperation with SB and featuring SB in public relation magazines can be effective. With such measures, however, the information might be conveyed only to people who are already interested in social issues.

Thus, school education is attracting attention. Among the younger generation, some people have no interest in social issues, and other people are very interested in them. Experience at school may be a factor that creates this difference. Some universities select SB for student internships and offer courses than involve starting SB. With the revision of the Fundamental Act of Education in 2001, junior high schools and high schools have begun to have their students participate in social service activities such as volunteer activities.

Some high schools have internship programs at SB enterprises and other places. According to "Survey on Implementation of Workplace Experience Activities/Internships in Fiscal 2013" conducted by the National Institute for Educational Policy Research, 80.8% of public high schools and 40.6% of private high schools have implemented internship programs. It is anticipated that students will become interested in social issues and SB through such experiences.

Of course, it is necessary for SB enterprises to proactively accept students for internships and workplace experiences, present lectures at school, and conduct other activities. However, participation in such education poses a large burden for SB enterprises with weak profitability, and so government support is needed, such as subsidies for necessary expenses.

3) Support according to type of SB

In the questionnaire survey, the two requirements to be considered a social enterprise are that the enterprise regards resolution of social issues as its mission and that it independently makes profits through business activities. Social enterprises defined by these requirements are roughly divided into two types.

The first type of SB is full of novelty. For example, it develops new methods for social issues and detects new social issues. SB of this type may trigger social innovation that can drastically change society. Accordingly, it is an especially important type of SB.

However, in general, it takes much time for new things launched by such SB to be accepted. The possibility of failure is also high. In order to shorten the time required and establish a business model quickly, not only economic support but also individual consultation is effective. There are not many organizations that support SBs from the start-up stage, such as Social Venture Partners Tokyo (Chiyoda-ku, Tokyo) and ETIC (Shibuya-ku, Tokyo). It is important to foster such supportive organizations.

Meanwhile, SB enterprises in general do not possess outstanding novelty, but social issues are not resolved only by enterprises with novelty. Rather, it is preferable that many enterprises following successful SB models emerge all over the nation.

For this to occur, it is important to convey accurate information on successful SB models and to organize the models according to the conditions of individual enterprises. From FY2008 to FY2013, the Ministry of Economy,

Trade and Industry conducted a project to transfer expertise on social business to support SB enterprises. More activities of this nature should be carried out.

—Reference Literature—

OECD (2007) “Reviewing OECD Experience in the Social Enterprise Sector.”

Yunus, Muhammad (2010) *Building Social Business*. Public Affairs. (*Social Business Revolution* (2010) [in Japanese]. Edited by Masaharu Okada, translated by Toshio Chiba. Hayakawa Publishing Inc.)

¹ In Europe and the US, social business is generally referred to as “social enterprise,” and it is usually considered to be an enterprise. In this paper, the term “social business” (SB) is adopted, and it is considered to be a project, following the definition of Ministry of Economy, Trade and Industry..

² Download is available at <http://www.thesroinetwork.org/>