

Social Enterprises' Financial Management: Theoretical and Empirical Essays

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Abstract:

With this dissertation, I aim to develop a theoretical environment in which social enterprises (SEs) are active. To do this, I propose general models which describe an SE as a hybrid organisation that blends between social and business purposes. I look for a way to present the social mission and the activities of SEs, taking into consideration the financial return and the mission's realisation. The goal of this thesis is, first, to understand financial mechanisms that take place in SEs, and, second, to help to manage these enterprises by proposing long-term strategies and by reducing risks, such as keeping stakeholders satisfied, realising the social mission, and avoiding bankruptcy. This dissertation is composed of four chapters that give a systematic overview of financial issues related to SEs and provide a novel theoretical approach towards modelling these organisations.

The first chapter describes SEs in a theoretical way, by taking into consideration their main aims. Based on the 'earned income' school of thought, the principal-agent theory and considering the nature of SEs' activities, I propose the objective functions of their owners (principals) and managers (agents). The maximisation problem of the SE is defined as the weighted average of the utilities of two groups of stakeholders who have an influence on the degree of the realisation of the social mission and business orientations.

The second chapter examines the determinants of borrowing decisions of SEs. Following the streams of research dealing with for-profit firms and non-profit organisations, I apply a panel data analysis of 2,228 Belgian social purpose companies over the period of 2004-2013. I conclude that the capital structure of these SEs mixes the features of for-profit and non-profit organisations.

The third chapter searches for the capital structure that enables to maximise the value of an SE. Here, an SE is defined as an entity whose stakeholders prioritise between social and economic goals. In applying a double bottom line approach, the objective function of the SE (the value of the SE) is maximised. I develop a dynamic model, and conduct a numerical analysis with respect to selected Belgian social purpose companies.

The fourth chapter tries to answer the question: how and why do Belgian SEs thrive or go bankrupt? Since they operate with both a financial and social bottom line, factors influencing SEs' survival may be substantially different from the ones relevant for their non-profit or business counterparts. Cox survival regression analysis is applied to panel data compiled from a decade of observations yielding 2,103 unique observations of 526 SPCs, which allow me to investigate the conditions preceding the failure of SEs.

The dissertation ends with a discussion section which summaries the contribution of this thesis to the existent literature and points out directions for further research. In this section, furthermore, the practical implication of my theoretical results is evaluated.