VALUE-LED MARKET-DRIVEN

Social enterprise solutions to public policy goals

by Andrea Westall

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1. Key Issues

What are the concerns of a centre-left government? Are they about reconciling wealth creation and social justice; promoting community activism and self-help; or securing equality of opportunity and greater equality of outcomes (in terms of appropriate distribution of profits and surpluses made from economic activity). Perhaps they are also the effective delivery of government services; achieving competitive advantage or regenerating deprived communities. Social enterprises – organisations that trade in markets to achieve social aims – can be part of achieving those public interest goals.

The variety and potential of social enterprise also implies that both government and society has to adopt a much broader notion of 'entrepreneurship'. Entrepreneurial behaviour does not just refer to pure profit-seeking but encompasses the ability to spot opportunities, identify needs and bring resources, skills and finance together. It is in this sense that government is increasingly being encouraged to become entrepreneurial and why social entrepreneurship has become both a buzzword and a recognised catalyst to find new and innovative solutions to social issues.

There is no necessary reason why the standard business or plc should be the only enterprise model. The argument that share-holder power exerts the requisite control and incentives to innovation and efficiency is rather less clear-cut in practice and there is no reason why other models cannot achieve similar performance outcomes. If such enterprises can also deliver desirable social outcomes then surely the investigation of such models is vital. We have to move beyond a limited view of the private sector in order to recognise how wealth creation and social justice might be realised in other ways than just through regulation or exhortation.

'Social enterprise' is a loose umbrella term which raises awareness of a variety of organisations that are making use of entrepreneurial techniques and the market to pursue social goals rather than primarily shareholder profit. Those social goals can be many and varied, for example: increasing the employability of the unemployed, creating goods and services for marginalised communities, or producing goods that are fair traded or which support environmental sustainability. They can adopt a variety of structures from standard businesses run for social aims, to consumer or employee ownership, or to multi-stakeholder governance which balances the interests of communities, employees, users, and even the government. They may operate in highly competitive sectors of the economy, create new markets or provide goods and services that are either not provided or are under-provided by mainstream business.

But surely all business ultimately exists for a social purpose? Isn't the pursuit of wealth creation in itself a laudable goal, providing further growth and hence living standards, and employment? Of course – but the idea of social enterprise helps to highlight alternative ways of doing business that more directly incorporate social and environmental concerns. It also raises awareness of the possibility of creating sustainable social change by harnessing markets and creating revenue streams that enable an organisation to achieve its aims without being reliant on time-limited funding or charitable donations.

The concept of social enterprise has arisen out of a resurgence of community enterprise partly driven by new community finance instruments, the recent revitalisation of mutuals and co-operatives and changes in the voluntary sector. But at the same time, the concept also refers to something much newer and more radical – old barriers between charity and self-help, between public and private, and between for profit and not-for-profit are breaking down. There are examples of social enterprises that straddle these boundaries, destroy old ideologies and create new vehicles to pursue social aims. But there don't seem to be that many. Why not?

A key difficulty is that, like most of the social economy of which they are a part, social enterprises suffer from a lack of visibility and understanding – there are only a few well-known examples and the extent of the sector, and its numerous subsectors, is far from clear. There is also a lack of rigorous analysis of the effectiveness of social enterprises in achieving their goals. It is for these reasons that policy makers and finance providers remain, understandably, to be convinced of their value. Some of the perceived ineffectiveness of social enterprises may be well-founded, and partly related both to poor quality management training and support and to an inability to access appropriate finance. There also appear to be few people able or willing to combine strong enterprise skills with a commitment to social aims.

But despite these problems, the examples in this book illustrate the importance of these organisations and the need for government to recognise and respond to the challenges and opportunities that they create. This has already happened to some extent. The Social Exclusion Unit's *Strategy for Neighbourhood Renewal* acknowledged the importance of social enterprises in helping to create sustainable community-led regeneration. Partly as a result of this, the Small Business Service (SBS) has been charged with including social enterprises under its remit. In a recent publication *Think Small First* the SBS has acknowledged that social enterprises play an important role in the nation's economy, not least in the promotion of social inclusion.

Social enterprises are also of potential importance in other areas of policy interest. They can and do have a role to play in securing competitive advantage in some industrial sectors and in the appropriate and effective delivery of government services. With growing interest in redesigning public services, particularly with greater focus on user involvement and control, new models will need to be explored. Social enterprises are already providing some interesting innovations particularly around preventive health strategies.

They are also part of any commitment to creating full employment since they are able to provide ways of increasing employability and creating appropriate employment for those who may find it hard to work in mainstream businesses or for whom there are few employment opportunities. They may also be part of altering mainstream business perceptions and behaviour, for example, by demonstrating the viability of otherwise under-served markets such as those for finance in disadvantaged areas or the employability of groups such as disabled people or older workers. They may also encourage greater corporate social responsibility amongst mainstream business through demonstrating the commercial viability of alternative ways of doing business such as fair trade.

The Government therefore needs to encourage a diversity of viable enterprise forms, not only in order to tackle issues of social exclusion, but also to help create new and innovative models of business; find ways of reconciling wealth creation with social justice and environmental sustainability; and for the future delivery of public services and public interest goals. There has, however, been a tendency to promote the superiority of mainstream private sector business and to pay far less attention to the possibilities of alternative models which may prioritise social and environmental criteria above profit. Whilst there is plenty of evidence to undermine the perfection of shareholder control, there seems to be less willingness to accept that other incentive structures might also encourage efficiency in non-shareholder dominated organisations.

This report not only explores how social enterprise as an umbrella term highlights the many possibilities of socially oriented enterprise but sets out a series of challenges for different groups. The variety and potential of social enterprise implies that both government and society need to adopt a much broader notion of 'entrepreneurship'. The voluntary sector, in particular, faced with decreased philanthropic giving and increasing opportunities, needs to recognise how becoming more enterprising can help them break away from grant-dependency and allow greater self-sufficiency and independence. For existing social enterprises, there is a real need to demonstrate and evaluate their additionality and the viability of their approach. For individuals, there is a new set of employment opportunities or satisfying entrepreneurial challenges.

But in order for the potential of social enterprises to be realised, we need to have a much greater understanding of their nature, diversity and potential; of how government and other institutions slow or speed up their development; a clear analysis of how social enterprises achieve their particular goals and whether or not they are effective in doing so. This is what this report sets out to do. Whilst only able to make a start, given the lack of good quality data, it *can* open up a space for new thinking and experimentation.

The research involved three seminars over the summer of 2000 that looked at the following government agendas where social enterprises might have a role to play. They were:

- *Competitiveness* – how social enterprises may combine social goals with success in highly competitive markets
- *Social Exclusion* – relevance of social enterprises to the regeneration of deprived areas and creating strategies for individual inclusion
- *Modernising local government* – nature of service provision and how social enterprises might relate to the developing role of local authorities as enablers and local leaders

The results of these seminars were supplemented with further research and conversations with a range of practitioners and policy-makers.

Examples of social enterprise

It is best to start with a few examples that illustrate the range of motivations and structures:

The Day Chocolate Company – advances the concept of fair trade. In this social enterprise model, Kuapa Kokoo, the farmers' co-operative that produces cocoa, owns one third of the shares in Day Chocolate, the company which produces and markets Divine Chocolate bars. The farmers' representatives also play an active role in decisions about how Divine is produced and sold. The chocolate is aimed at a mass market, produced to UK taste. Cocoa prices paid help the primary producers in Ghana directly. Day also uses its unique structure to attract market share and raise awareness of fair trade issues amongst consumers. Day Chocolate was set up in 1998 by a unique coalition including Kuapa Kokoo, Twin Trading, the Body Shop, Christian Aid and Comic Relief, the Department for International Development and the NatWest. The company is jointly owned by Twin Trading, Kuapa Kokoo and the Body Shop International.

Coin Street Community Builders (CSCB) – bought the freehold for land on the South Bank of the Thames in 1984 as the result of local community group pressure to prevent plans for major office development in order to develop locally-controlled mixed use development. CSCB is a company limited by guarantee set up to 'provide public service not for gain'. The ethos of CSCB is to create affordable housing recreational space, workspace, shopping and leisure facilities for use of the whole community. Revenue streams are varied. Commercial lets, for example, to Harvey Nichols help subsidise rents to artists and designers in Oxo Tower Wharf and for social housing provision. The Wharf itself was refurbished through a mix of bank loans, Housing Corporation and English Partnerships grants and CSCB equity. CSCB also established Coin Street Secondary Housing Co-operative as a registered housing association which is creating six housing developments that are being set up as primary tenant-owned housing co-operatives. The combined annual turnover of CSCB and the Housing Co-op is about £4 million.

Candid Arts Trust – based in Islington, North London, exists to promote and help arts graduates to show their work and become creative entrepreneurs. They also aim to raise awareness and appreciation of arts in the wider community by publicising exhibitions and running community-based projects in the UK and abroad. They create degree show spaces for graduates, individual and college websites, liaise with buyers and act as consultants to local councils or companies who wish to use art to enhance their image and profile. The Trust has been self-funded for 12 years through hiring out gallery space for exhibitions, filming locations or functions; a café; in-house catering for banquets and buffets; studio rental; art sales commission and membership fees. 'We have sustained our core business through an understanding that if charities like ourselves are to play a part in regeneration, changes in attitude and the economy we have to speak a language that is understood by commerce…Competing with 160,000 charities in the UK for limited funding never seemed to us a good idea. We are proud to date that we sustain ourselves, our objectives and our future.' (Candid Arts Trust 2000)

Health Enterprise Partnership – has been set up in Shepherd's Bush, London, by Paul Collins while at the School for Social Entrepreneurs. The main social aim of this organisation is to provide affordable clinical exercise (exercise prescription, monitoring and supervision of those with diagnosed clinical conditions and/or disabilities that require specific knowledge) and training to the community for older people, people with mental health problems, disabilities or chronic debilitating conditions. There is little provision in this area even though it relates directly to the Government's increasing focus on preventative health interventions and the concept of 'wellness' rather than illness. Subsidised service provision will be financed by surplus income created by providing services to the private sector and reinvesting the surpluses. HEP is being incorporated as a company limited by guarantee and is applying for charitable status. It has an advisory board including users, families, and community members.

St Luke's Communications Ltd – was created as a buy-out of a London branch of the US advertising network Chiat/Day. The opportunity was used to create a company which would be entrepreneurial but also dynamic and inclusive – focusing on making work 'enriching, challenging and rewarding'. The company is employee-owned with individual shares, a profit sharing trust and a qualified employee share ownership trust. But full employee share ownership is not the only distinguishing feature, St Luke's 'is built on a set of relationships rather than a top-heavy management hierarchy. The company is managed openly and decisions can be questioned … There is an emphasis on co-operative team working' (St Luke's, 2000). St Luke's feel that this structure and their methods of working create a comparative advantage over other agencies. Their staff retention is higher than the industry average and they believe that clients appreciate the way in which their approach creates innovation and commitment.

Greenwich Leisure Ltd – arose as an alternative to the privatisation of Greenwich Borough Council's leisure department. It was established as a worker co-operative and as a 'society for the benefit of the community' registered as an Industrial and Provident Society. Under this model, the primary aim is to benefit the public rather than employees. The management board includes employees, Greenwich Council representatives, users, trade union official and the General Manager. The council leases the buildings and sets conditions of service provision in the lease as well as a grant which targets services to priority groups. The result has been a 35 per cent reduction in council costs, a 100 per cent increase in income generation, £4.5million investment and three more leisure facilities opened up (Allan 2001).

Furniture Resource Centre Group – is made up of three organisations including The Furniture Resource Centre (FRC) founded in 1988 to enable people on low income to buy furniture. They ‘design, manufacture, recycle, refurbish, sell and deliver furniture to people in need and so create work for the jobless and offer long term unemployed people salaried training’ (FRC 2000). In six years the FRC has moved from being a small local charity (under £300,000 turnover and 15 staff) to generating over £5million with over 120 employees. 90 per cent of income is generated through sales of products and services. Grants are only used for particular pieces of work such as Lottery money for building refurbishment. ‘Our financial independence from statutory and charitable trust funding has liberated us. We are the masters of our own destiny and we choose where we go and how we do it. Free of the funders’ handcuffs and the risk averse conservatism of regeneration quangos, we are free to experiment and innovate.’ (Black 2001).

Walsall Home Care Co-operative – began in 1989 with 28 self-employed carers and two staff supported by the local authority and the Black Country Co-operative Development Agency. It now has 250 carers and 6 staff. 79 per cent of turnover comes from home care to the elderly and disabled and the rest from domestic service and a consultancy to help others wishing to set up similar agency co-operatives. The social aim of the co-op is to enable people to maintain their independence and live in the community. It also provides services to members such as marketing, insurance, securing clients, and providing benefits advice. They believe that their structure enables them to provide a better service than standard private sector companies.

The Wise Group – grew out of Scottish Neighbourhood Energy Action, Scottish Council for Voluntary Organisations and Glasgow CVS in 1984 to link housing and energy conservation with training for the unemployed. Their own workforce has expanded to 350 staff operating in over half a dozen areas of the social economy from energy insulation and recycling to tree planting and care services. In 1999 they placed over 1500 trainees into employment. They have moved from an initial turnover of around £1 million to an enterprise with an income of just under £18 million in 16 years, much of which is self-generated. The Wise Group’s mixed income, and its use of European funding, means that it has had the freedom and flexibility to develop these skills and learn from its mistakes. More importantly, it has had strong and effective support from Glasgow City Council (GCC). The purchase and refurbishment of assets from the late 1980s, and a mixed income stream from income-generating activities and public subsidy, provided a firm base on which to grow.

Medcliffe Community Nursery was established as a result of a 1988 survey which indicated that lack of affordable and reliable childcare facilities was preventing people on the Radcliffe and Medlar Farm estates in Ealing, particularly women, from returning to work or training. A steering committee with residents and council representatives raised funding to open a nursery, initially for 25 children. Now the nursery is full with a waiting list. Income comes from fees, fundraising and donations. The nursery is a registered charity with an elected management committee drawn from parents or guardians, residents of the estate, or other interested associate members.

Acceptable Enterprises, Larne, County Antrim – was established by business and health professionals to address a local need for employment and rehabilitative opportunities for people recovering from mental illness. They initially provided packaging and light assembly services but then expanded by buying an existing mop production company. There is now a workforce of 11 full time and 5 part time employees with 18 others on work experience. Seven of the full time and two of the part-time employees have mental health problems or other disabilities. Acceptable Enterprise is the only mop manufacturer in Northern Ireland and is now exporting to the South of Ireland as well as considering producing other products such as brushes and dusters. They are also investigating opportunities to work with other social firms through joint trading and sales. The Social Firms Handbook provides research evidence for the job-creating and rehabilitative impact of such businesses (Grove *et al* 1997).

The Big Issue Ltd is a company which aims to: help homeless people earn an income through self-help (earning the proceeds of the sale of the *Big Issue* Magazine); invest profits through social programmes to help homeless people (by channelling profits to associated charities such as the Big Issue Foundation); create a voice for the homeless in the media; produce a quality magazine and provide an example of a socially responsible business (Big Issue 2001). National sales from the *Big Issue in Scotland*, the *Big Issue in the North* and the *Big Issue* currently total 271,000.

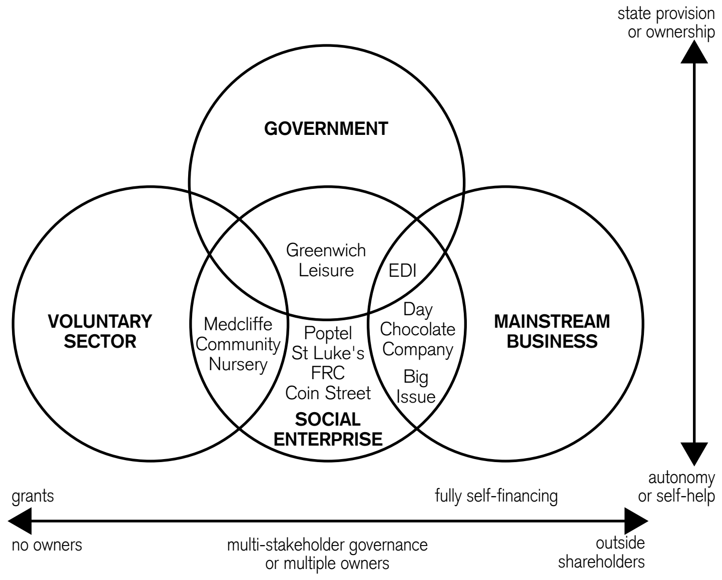
These examples show that social enterprises fulfil a diverse range of social (or environmental) aims and enable these goals to be achieved through a variety of trading activities in the marketplace. Whilst many aim to be self-sufficient, they may also make entrepreneurial use of a variety of income streams including donations, public money and in-kind support. They are not motivated primarily by achieving profits solely for the good of external shareholders. However, outside shareholders may be involved particularly if equity is needed to support the development of the enterprise. Their ownership and governance are based more on participation by relevant stakeholder groups and their surpluses or profits are distributed to these stakeholders or used to further the social aims or benefit the wider community. 'They are businesses that combine the entrepreneurial skills of the private sector with a strong social mission that is characteristic of the social economy as a whole.' (Allan 2001).

We can therefore say that: social enterprise is an umbrella term for organisations that achieve a variety of social aims predominantly, but not necessarily exclusively, by trading in goods and services.

Future developments in social enterprise will depend on the recognition of the benefits of such enterprises, how they fit with other societal trends, the extent of support by government, and whether any of the barriers to their development can be removed.

Figure 1.1 illustrates the different 'spaces' where social enterprises are found and where new innovations might be created. The overlaps with other sectors – voluntary, government or mainstream business – illustrate the range of models incorporating different stakeholder involvement or ownership and also the lack of clear distinctions between sectors. The axes show relative independence from government from top to bottom and from left to right a spectrum from dependence on grants and donations to fully self-financing and from no owners through multiple owners or multi-stakeholder governance to pure outside shareholding.

Figure 1.1



Drivers and barriers

What are current drivers and barriers to the development of the social enterprise sector in the UK?

Drivers

An increasing climate within government towards understanding and recognising the value of the third sector in meeting social need and creating active communities. This is reflected in discussions over the concepts of social entrepreneurship, the recognition of the economic importance of the social economy, the recent COMPACT between the government and the voluntary sector and the drive to increase voluntary activity and active citizenship.

The growing recognition of the need to balance wealth creation with social justice and environmental sustainability reflected partly in the increasing trend towards corporate social responsibility amongst mainstream business. Organisations that directly attempt to balance such interests are clearly of importance in both achieving these goals and also acting as demonstrators of the economic viability and the job creation potential of doing so.

A need for more entrepreneurial ways of working by the voluntary sector. If the third sector is to play a greater role in society, then clearly that cannot be done solely on the basis of grant funding or philanthropic donations. Becoming more self-financing enables greater independence, the creation of sustainable long-term strategies and the potential for further innovation.

Greater realisation of the benefits of employee ownership and involvement in increasing productivity and greater employee satisfaction, particularly in so-called 'knowledge-based' industries. This is not only a driver towards social enterprises which are employee-owned but also to greater involvement and ownership by employees in standard business. The lines here between social enterprise and mainstream business may be blurred but the key point is that there is a need to recognise and develop a diversity of business forms.

The increasing use of contracting by government and the spread of Best Value. Social enterprises can help contribute to developing a diversity of potential providers who are able to respond to a range of social needs in responsive and cost-effective ways.

The growth in personal services. There has been an increase in demand for personal services which are often relational and dependent on trust, for example long-term elderly care or childcare. Some services may be under-provided by the market and social enterprises are well-placed to create local trustworthy services and contribute to local employment generation.

Recognition of the role of mutual self-help. There has been a renaissance in support for mutual models of addressing community and individual need which involve active participation, for example, credit unions, and parent-run childcare which should lead to further innovation and development.

The move from passive recipient of services to active participant. This is particularly true in care fields, for example, childcare, preventive health, or elderly care. It is also true in models of increasing employability. A variety of social enterprises are providing innovative models to address these issues.

Community-owned strategies for regeneration. There is an increasing recognition of the importance of putting communities at the centre of regenerating deprived areas. Several models of social enterprise already exist which incorporate communities in creating their own policies and strategies for local development. These can include community-owned managed workspace, development trusts, or tenant-owned or managed housing.

Barriers

Inertia in the voluntary sector to adopting a more enterprising approach and understandable fear that it may erode their mission statement and alienate key stakeholders.

Shortage of people able to combine strong entrepreneurial skills with an equal commitment to social aims. The Furniture Resource Centre, for example, notes that 'Our biggest problem remains finding and retaining people with the necessary skills and personality to run the businesses. The social business is not just looking for people with enterprising zeal and business acumen but those too who buy the social change agenda.' (Black 2001).

Lack of adequate evaluative mechanisms and evidence on what works and why. There is remarkably little rigorous analysis of the effectiveness or otherwise of different social enterprise models. Whilst a range of studies indicate their theoretical superiority on certain criteria to standard business models, actual hard evidence of these benefits borne out in practice is often hard to find. There is a real need to develop measurement and evaluation techniques which are able to accommodate performance measures which go beyond efficiency and financial considerations, to determine wider forms of additionality. This information would not only help social enterprises themselves to evaluate and improve their performance, but also enable them to be appropriately compared with other organisations (for example, for public service delivery).

Not enough visibility of the sector, lack of critical mass and inadequate data. There is very little good data about the extent of the sector or current growth trends. At present the inability to identify the scale and potential of the sector makes it hard to clearly recognise demand for appropriate government policy, finance provision, or advice and support. In-depth scoping studies of social enterprises are required as well as an understanding of the barriers to the formation of social enterprises (and hence latent demand) and the key drivers which might affect their development.

Inability to access appropriate finance. Access to finance appears to be more difficult and also more complex than for standard business. Some of these issues were dealt with by the Social Investment Task Force (2000) but there is a need to raise awareness about social enterprises amongst mainstream finance providers, and create and support innovative models of finance such as social equity.

Inability to access appropriate advice and support. There is a need for good quality management training, advice and support particularly for those organisations that are trying to effect a culture change from grant-dependency. There is currently little expertise within current government-sponsored business support or within relevant professional services (for example, law and accountancy). The SBS is currently addressing this issue. There are several practical examples around the country of comprehensive ways to develop support for social enterprises.

Appropriate legislative framework. Whilst social enterprises take on a variety of organisational structures it is unclear whether there is enough diversity or flexibility within current legislative models to enable the achievement of various social goals. This is a complex area requiring ongoing review.

Perception of the sector. There is a tendency for social enterprises in general to be seen as more worthy and amateur than enterprising. This is partly a hangover from the history of the community business movement in the 1980s where there were quite a few failures, highlighting their potential fragility if not appropriately managed and resourced. Mike Campbell has argued that there needs to be a step change in how the third sector as a whole is seen – as ‘a serious career option, not a second best’ (Campbell 1999).

The Government’s belief in the superiority of the mainstream private sector model on grounds of efficiency and innovation. There is a tendency to prefer ‘privatise and regulate’, contracting out or public-private partnerships to exploring more innovative models say of hybrid governance between stakeholders and government.

What does it all mean for Government?

One of the key drivers of future social enterprise activity is government recognition and support. Several examples are presented below of the range of potential government policy agendas where social enterprises might have a role to play in creating sustainable solutions.

Health and welfare (DoH). There may be potential to build on social enterprise models of health prevention involving active participation by users, for example, through co-operative or multi-stakeholder not-for-profit health centres. Social enterprises may more effectively address issues of ‘trust’ (vis-à-vis private sector providers) particularly in care services or provide services not provided by the NHS. The Health Enterprise Partnership mentioned above illustrates the ability to cross-subsidise strategies for dealing with chronic illness through revenues generated from professional training schemes. Other social enterprises contribute more indirectly to health outcomes through say provision of energy-saving schemes or local quality food. There are also innovative models of welfare provision abroad which build on mutual structures to pool individual welfare entitlements in order to access services.

Increasing employability and achieving full employment (DfEE, DTI). Some social enterprises provide ladders to work through intermediate labour market models (for example, The Wise Group) or provide appropriate employment possibilities for people with disabilities. They can also create new sources of employment from developing markets for local services, particularly in deprived areas. They are thus part of any strategy to create full employment since they enable people to access jobs but also create appropriate employment possibilities for people who may have few opportunities in mainstream business.

Competitiveness (DTI, Treasury). Social enterprises may, by their particular ownership structures or social mission, confer comparative advantage in the market place. For example, there is evidence of the competitive advantages of employee ownership and involvement, particularly in knowledge-based industries where success depends primarily on human capital. Social enterprises can also integrate social, environmental and economic concerns within a business rather than relying on legislation or exhortation of mainstream business. For example, Café Direct, providing fair traded goods now accounts for about four per cent of the UK coffee market. Day Chocolate also illustrates how an innovative multi-shareholding model can be developed to ensure appropriate returns to primary producers.

Utilities and sectors with a public interest (DTI). There is no reason why social enterprise models should not be considered as viable alternatives to privatisation. There is strong theoretical evidence of the potential superiority of consumer mutuals or trust models with multi-stakeholder governance between the community and local government, in creating positive outcomes for consumers for some monopoly utilities. Practical evidence from the US illustrates their viability. They may also be able to assuage public difficulties over trust (for example, air traffic control) specifically because their primary goals can be aligned with the public interest and incorporate social and environmental aims into their remit rather than being imposed by costly regulation.

Public service delivery (DETR, DoH, DfEE). Social enterprises might provide effective models and alternatives to the private sector in delivering certain services, for example, Greenwich Leisure, or innovative models of care. Some local authorities are actively creating and designing social enterprises to achieve broader public interest goals, for example, 'trusted brokers' who accredit, say, gardeners and builders, thus increasing trust by local people in mainstream producers and hence increasing local market opportunities and employment.

Regeneration (DETR, DTI, Treasury). Social enterprises can create 'missing' markets by providing goods and services that may not be available or not accessible in certain communities or by certain groups. They can also generate other economic activity and provide the underpinning for successful regeneration, for example, through creating managed workspaces which provide affordable rents and often advice and support which can help to develop and retain enterprises within the local area.

Community Action (Home Office, DETR). Social enterprises which are community-owned or governed can be part of generating community involvement in local economic and social activity. Community assets also enable local people to have more flexibility and autonomy over creating local solutions to local problems. Coin Street Community Builders is a good example where the community owns the land and is therefore able to determine the future development of the locality.

Policy issues and recommendations

Social enterprises have been recognised by Government as legitimate and effective vehicles for area regeneration or individual inclusion. Their wider promotion should also be seen as an effective way to retain a plurality of enterprise forms which can underpin responses to current and future societal needs and create choice for consumers and employees. They should also be understood as possible solutions to other areas of public interest, for example, new models of public service delivery which engage consumers actively in the production of their own outcomes.

However, policy can only be based on good evidence. There needs to be a great deal more understanding about the prevalence, effectiveness and scope of social enterprise. At the same time, government should question its general belief in the supremacy of the standard business model and consider more innovative models particularly for public interest companies such as National Air Traffic Control Service (NATS), Railtrack or for the use of local public assets.

So what can be done?

Raising awareness and understanding

Task Force on Enterprise Diversity. The next government should set up an independent Task Force to explore the nature of enterprise diversity, questions of ownership and the barriers and drivers affecting the development of different organisational and ownership forms. It should also investigate how different enterprise models might relate to public interest goals and explore international examples, particularly in service delivery.

Broadening the definition of enterprise and the remit of the DTI. The DTI needs to become the department for enterprise in ALL its forms, not just the standard business model.

New enterprise unit in the DTI. There should be a new unit established within the DTI focused specifically on social enterprises and the agenda made part of a ministerial brief. The unit's function would be to explore different kinds of enterprise models and provide a clear focus for understanding and policy responses. This brief might sit naturally alongside the corporate responsibility agenda but be part of the broader drive by the DTI to further explore how to reconcile social and environmental concerns with wealth creation.

Linking enterprise and citizenship in schools. It has already been announced that enterprise is to be incorporated within the curriculum and that there will be support for extra-curricular enterprise activities. Proposed enterprise initiatives in school should include understanding of social entrepreneurship and the possibilities to create or take part in social enterprise. Social entrepreneur role models should visit schools alongside mainstream businesspeople. Such activities would help students to see how enterprise skills can be applied to meet local social or environmental needs as well as to increase community activism more generally. The further expansion of enterprise projects to include social issues could also encourage children to consider wealth creation and its relation to social justice and sustainability as well as present them with alternative employment options for the future. In Scotland, which now has a very comprehensive set of initiatives within its schools, some projects are community-based.

Expanding Enterprise Insight and the Campaign for Entrepreneurship to include social enterprise. The current national campaign to encourage entrepreneurship, particularly amongst young people, should ensure that a variety of enterprise forms are presented as possibilities and role models should represent a spectrum of activities. Scotland is considering introducing Social Enterprise Roadshows, travelling exhibitions that will introduce different enterprise models to the general public. This kind of approach proved highly effective for standard business and could have a similar effect for social enterprise.

Training the next social enterprise managers and potential social entrepreneurs. Business schools should be encouraged to research and incorporate training on enterprise diversity and social enterprises within their courses (as well as offering specialised programmes). The School for Social Entrepreneurs in London provides specific training and experience. The Judge Management Institute, in Oxford, is exploring a Masters programme in social enterprise.

National Centre for Enterprise Innovation. In the US there are various foundations which support social entrepreneurship and social enterprise. Nothing similar exists in the UK and therefore the creation of a national organisation could provide the necessary impetus to recognition and innovation in social enterprise. The DTI could pump-prime a National Centre for Enterprise Innovation which could:

- Explore the diversity and potential of different enterprise models
- Find ways of measuring and evaluating outcomes and impacts
- Research existing social enterprises both within the UK and internationally to find out what works and why
- Investigate barriers to growth and development of different types of social enterprise, appropriate advice, support and financial models
- Work with NCVO to consider how the voluntary sector can become more entrepreneurial and with the United Kingdom Co-operative Council to explore the potential of co-operative business
- Investigate the need or otherwise for amendments to legislation or new legislation to enable innovative forms of social enterprise to function adequately
- Consider what competitiveness and 'level playing field' means in the context of social enterprise vis-à-vis conventional business. (For example, with regard to EU state aid rules or to other forms of preferential incentives)

Design Council exhibition and annual social enterprise award. The Design Council could promote innovative social enterprises along similar lines to the Millennium Products exhibitions. There could also be an annual national award for innovative enterprise models. An example already exists which could be further developed – the NatWest's Enterprising Solutions award programme – which has already highlighted a range of innovative social and environmental trading activity.

National data review. Companies House should explore ways of categorising their data on the basis of whether the business has a social mission or is a standard company. This information will be invaluable in tracking trends over time.

The voluntary sector to research the extent and potential of enterprise activity. The NCVO should conduct a review of the voluntary sector to find out just how many organisations are acting as social enterprises and enable their members to explore a variety of social enterprise models which might be appropriate to enhancing their ability to fulfil their mission. Instruments have been developed in the US to enable this analysis to take place. They should be supplemented by case studies of social enterprises and paths by which once grant-dependent organisations have become more sustainable through the creation of a variety of revenue streams.

Increasing innovative potential

Creating a virtual market-place for social innovation. A virtual market-place could be created to bring together social entrepreneurs, business entrepreneurs, financiers and other players to brainstorm and create innovative social enterprises and strategies. One way in which this might happen could be along the lines of the proposed Kellogg model in the US which would act as a broker for people, ideas and resources. The Community Action Network, a network of social entrepreneurs, already exists and could be linked to a much broader partnership for encouraging further innovation.

Local and regional networks for innovation and support. Local SBS franchises together with local authorities and, at a regional level Government Offices and RDAs, should be encouraged to create social enterprise partnerships and networks. These forums will create spaces in which key players can be brought together to produce innovative ideas, particularly in relation to local service delivery and regional economic or social development. In order to promote innovation appropriate to local and regional requirements, they should be able to have access to and map social, environmental and economic needs. These partnerships should also be able to address barriers to the formation and growth of social enterprises, such as the need for social enterprise incubator facilities or the encouragement of clusters or consortia of organisations to achieve economies of scale.

Removing the barriers

Social enterprise legal review. There needs to be a review of current legislative models which complements the company law review in order to determine how existing legal frameworks may need to change in order to accommodate diverse social enterprises. There are concerns about the paucity of legal forms available and the limitations that current models may provide (for example, for allowing equity or user involvement). Questions of legal form are also important since 'charitable' activities attract tax exemption whereas other parts of the third sector, even if they are undertaking similar activities, do not.

Ensuring that all enterprises are able to access available government incentive and support schemes. Strategies for promoting competitiveness need to recognise social enterprise whether that is through enterprise incentives (for example, ensuring access to tax breaks such as the Enterprise Investment Scheme or initiatives such as the National Business Angel Network (NBAN) or National Business Volunteer Mentor scheme). There is no reason, for example, why social business angels could not be included in NBAN or why existing angels could not be encouraged to support social enterprises.

Advice and support. The Small Business Service is already charged with supporting social enterprise. It is currently investigating the extent of market demand and how best to deliver advice and support in partnership with other organisations. It should also ensure that voluntary sector organisations that are seeking to become more 'enterprising' are also able to access SBS resources and expertise. The SBS could also promote different enterprise forms rather than just reacting to existing advice and support needs. It will need to work in partnership with other specialist advice providers and umbrella groups such as local co-operative development agencies, local Community

Voluntary Services, enterprise agencies and national networks which have expertise of particular segments of the sector such as the Development Trusts Association, the Social Business Network or the UK Co-operative Council.

Finance. The Social Investment Task Force (2000) has already set out a series of proposals for increasing the availability of appropriate loan and equity finance to community-based organisations and micro-enterprises. However, social enterprises are not just involved in tackling area-based social exclusion. The Bank of England should sponsor a review of issues affecting demand for finance and finance provision for a range of social enterprises. At present, there is little solid information on which bankers can base their decision-making.

Modernising local government and local service delivery

Local authorities need to take a proactive stance on the development of appropriately diverse markets for services in their area in which there is a public interest, for example, elderly care. Local authorities are being charged to become enablers or leaders within their areas rather than just providers of services. In order for this to become a reality, local authorities will need to play a more active role in developing local markets for services to ensure diversity of provision to meet all needs and to help create markets which currently do not exist.

Part of this approach may involve support for the development of innovative social enterprises. However, lessons from the previous poor performance of local authority assisted credit unions and community businesses need to be learned before any more proactive agenda is set in place. *There should be research into cases where the local authority has taken on such a market-making role and an assessment of the possibilities and difficulties of doing so, along with the dissemination of best practice.*

The experience of certain local authorities with this market-making approach has led to concern that there needs to be *an investigation of the extent to which Best Value, finance regulations and EU procurement rules enable or impede innovative forms of procurement and market-making* which might support the creation of innovative social enterprise solutions particularly where they 'join up' or cross policy areas, for example, in service delivery and local employment creation or increasing employability.

One way forward may be to set up *pilots of innovative social enterprises, particularly those which involve user-participation or multi-stakeholder governance*. There is also a partnership role for local authorities in helping to forge links between social enterprises and other players, for example, facilitating links between credit unions and banks.

Serious attention paid to developing hybrid organisations involving government and the community which incorporate user involvement, democratic accountability of key stakeholders and primary commitment to public interest goals. Such models have been developed in leisure and in local economic development – there is no reason why the same could not be considered in other areas, say healthcare.

Further creation and support for community asset development. Community assets enable community-owned and led development strategies by creating sustainable revenue streams to enable a variety of activities. Local authorities should review all potential asset sales and current assets to see first whether or not those assets could be used in productive ways by the local community or through existing community development organisations to enable further and sustainable long-term social and economic returns to the local area.

Local grant funds to enable voluntary organisations to explore their ability to become more self-financing. Access to a grant fund (perhaps linked to community finance initiatives) would enable voluntary organisations to review their existing operations and how best they might explore a more businesslike approach and perhaps generate more earned income. Such a fund might also be linked to access to mentors and/or social business angels.

Local agencies such as local authorities and local health authorities need to understand the diversity of potential providers when considering contracts and have access to best practice.

There also needs to be a review of the extent to which the evaluative techniques and contracting procedures employed will capture a range of value-added outcomes, for example, with respect to user involvement and empowerment. While Best Value is meant to ensure that the best contracts or public sector delivery is put in place, it is not at all clear that Best Value reviews are able to adequately assess the differences in quality of outcomes by different types of service providers, for example, the additionality to be gained from say an elderly care home involving co-operative ownership by employees and residents. This is partly to do with a paucity of evidence to show that different organisations might create different outcomes and a lack of clear evaluative techniques for 'softer' outcomes. There is therefore also a need for a *national review of best practice* models across the different sectors of locally funded service provision in order to determine the breadth and scope of current practice.

The Cabinet Office should also undertake research to assess the diversity of service delivery models; this could include learning from overseas on models of third sector delivery.

There needs to be adequate data collection which distinguishes between different types of service provider or the participation of different sectors in strategic partnerships. This will raise awareness of social enterprise and broader third sector involvement and help assess trends.

2. What is a social enterprise?

Whilst no one likes to waste time on definitions, 'social enterprise' is still a developing term. Government particularly, needs to be clear about what is or is not a social enterprise (and equally what the different types are) if arguments are to be made that they should be supported, say through tax incentives, finance initiatives or targeted advice and support. Unfortunately the concept is currently chimerical, shifting according to the context of the discussion and with very loose boundaries. But maybe that looseness is actually an advantage. Social enterprise is a useful umbrella that covers alternative business models and organisations that exist to address a variety of social issues. It can therefore raise awareness of this diversity, create new initiatives and new innovative models, and provide a focus around which government, finance providers, entrepreneurs, communities and support organisations can respond.

Clarifying the concept

Social enterprise as a concept has been particularly promoted by organisations such as the New Economics Foundation and Social Enterprise London. Social Enterprise London adopts the definition that a social enterprise quite simply 'trades in a market in order to achieve social aims' (SEL 2000a). These social aims can include:

- increasing employability
- providing a good or service that is not usually provided by the market
- providing a service in a certain way which is enabled by the organisational structure
- consumer or employee ownership and involvement
- fair-trade

The origins and thinking behind social enterprise can be dated back to, for example, a magazine called *New Sector* which arose from the community business movement in 1979. This journal was a counterpoint to the Thatcherite insistence on the non-existence of society. It asserted that there was a new terrain that was market-oriented but distinctly social in nature, existing to 'promote the principles of collective enterprise and common ownership'.

'Social economy' and 'third sector' are related terms but not synonymous with social enterprise. They are used to denote parts of the economy populated by organisations such as co-operatives, mutuals and not-for-profits. The history of 'third sector' organisations in the UK is in some ways the history of two alternative strands – that of self-help (mutuals and co-operatives) and of charities where the paradigm, at least historically, is more related to helping others unable to help themselves. As some of the examples in this report show, that easy distinction is no longer tenable and some of the most exciting third sector organisations and social enterprises break free of historical baggage and ideology to create new innovative ways of addressing social issues. Whether or not the twin legislations that underpin the two historical models hold back further innovation or act as a barrier to their development is something which is touched on in this report but which requires further investigation.

Social enterprises are part of the third sector but characterised by being more entrepreneurial and self-financing. It is clearly hard to draw dividing lines but they would not include those organisations that exist purely to lobby or represent people or those which are predominantly grant or donation dependent. There is sometimes an attempt to clearly distinguish social enterprises by arguing that they are totally self-sufficient. However, such a tight definition would exclude some of the most well known social enterprises such as The Wise Group. Whilst financed from trading activities, they also make use of, for example, finance from government training programmes for the unemployed.

There is a number of very enterprising not-for-profits that bring together a diversity of funding streams and resources to enable them to achieve their aims. It might therefore be better to say that a social enterprise is characterised by independence from grant funding (particularly for core functioning) but it may use grants where appropriate alongside other revenue streams. The entrepreneurial aspect is the ability to harness all available resources to achieve sustainable social aims.

There is also a fairly clear distinction within this broadly defined social enterprise space between those organisations that do business in an alternative way (for example, co-operatives) and those which enable markets to work, help to increase economic activity (of whatever form), or enable people to access goods and services they otherwise could not. Whilst these two motivations can be found in the same enterprise, the former tends to relate more to existing markets and hence the competitiveness agenda and the latter to regeneration, and to social inclusion.

Another point to note is that social enterprises and social entrepreneurs are not necessarily doing the same activities. Whilst you could call the people who start social enterprises social entrepreneurs, not all social entrepreneurs start social enterprises. ‘Social entrepreneurs spot gaps in our social fabric, and create new social institutions and instruments to fill those gaps’ (SSE 2000). The School for Social Entrepreneurs in London aims to ‘identify, support and encourage entrepreneurial talent amongst people who want to work for the public benefit. They may work in the public and voluntary sectors, self-help and mutual aid organisations, social businesses and the partnerships among them and the private sector’ (SSE 2000). There is also a rapidly expanding network of social entrepreneurs – Community Action Network (CAN) – which helps to ‘create a mutual learning and support network for social entrepreneurs’ through an electronic network and other forms of communication (CAN 2000).

Social enterprise first made its appearance in a government document in the report of the Policy Action Team 3 (HM Treasury 1999) for the Social Exclusion Unit’s *Strategy for Neighbourhood Renewal* (SEU 2000). Partly as a result, social enterprise is currently associated predominantly with social exclusion, with those organisations that create markets in goods and services in deprived areas or provide employment opportunities for various groups of ‘excluded’ people. It is less associated with alternative business models such as fair trade, employee ownership, or innovative user-focussed models of service provision.

Overall, then, it makes sense to see social enterprise as a useful but loose umbrella term which describes organisations that are enterprising in their mode of operation and which exist primarily for a social aim. That is in contrast to a business that distributes all its profits to shareholders. But we instantly run into trouble. Surely any standard business should be a social enterprise as well? They create employment and wealth which is recycled through taxes, salaries and investor returns to further boost the economy or fund desired social goals through taxation.

Commentators such as Elaine Sternberg (1994) argue that businesses only exist to create wealth and employment. However, this view is under attack with the increasing acceptance of the importance of corporate social responsibility – the consideration by companies of the impact of their actions on a variety of stakeholders and the need to address wider social, ethical and environmental issues. The current company law review asks the fundamental question of whether a business is run in the interest primarily of shareholders or for all relevant stakeholders (DTI 2000). It is likely that the ultimate outcome of that review will be a legal framework which retains the primacy of the shareholder but allows consideration of other stakeholder interests in the furtherance of 'long-term shareholder value'. There may also be increased reporting requirements on companies including a range of social and environmental concerns.

Some businesses make the highest standards of social and environmental accountability and practice integral to their mission statement. By operating in this way, they also create high returns for shareholders. Is there then really a clear distinction between this type of business and a social enterprise like the Day Chocolate Company? It is possible to argue that the main distinction is still that a social enterprise does not exist primarily to create profit for shareholders – that the social and environmental policies are not just part of a 'licence to operate' but are integral reasons for their creation. Whilst they may have shareholders, they often preclude majority holdings by outside shareholders (or issue preference or non-voting shares) to ensure that they cannot be easily taken over or be subject to undue outside pressure.

But there are hybrids and overlaps. How would we, for example, label a business that distributes half its profits or surplus to outside shareholders and half to community development projects whether in the UK or overseas? And are mainstream business motivations always so clear-cut? Jeremy Kendall (2001) conducted research into elderly care and found that the motivations of small firm residential care providers (often ex-public sector professionals) were autonomy, professionalism and meeting their clients' needs – not primarily profit. He found that the price mark-up and costs observed where much lower than you would predict for profit maximisers. This point relates to the well-observed fact that entrepreneurs often do not have one single motivation for starting their enterprise. In fact, making money is often not the primary goal – it is often more that of working for yourself, or realising an idea (Gavron *et al* 1998). Other motivations could well be more 'social'. For example, would you class as a social enterprise a business which decided only to employ over-50 year olds as a response to concern about job availability for older workers or an example from the US, where an entrepreneur only employed refugee craftspeople to create a niche furniture line?

Part of the definitional difficulties clearly arises because we are putting a label on a range of diverse activities that could be labelled 'social'. The materials published by Social Enterprise London, for example (Allan 2001; SEL 2000b), deal with these fuzzy boundaries and diversity by setting out a range of continuums, for example from reliance on grants to full self-sustainability. They also set out a social ownership continuum:

The concept of 'social ownership' is often seen to be a key defining feature of social enterprises. But we have to be careful with the term 'ownership'. Strictly ownership involves two rights – that of entitlement to residual profit (after all contractual payments have been paid such as wages, interest payments or costs of supplies) and that of control over the direction of the organisation and its management (Hansmann 1996). In this sense social ownership is being used to refer to ownership by stakeholders other than just outside shareholders, for example, when we refer to employee co-operatives, consumer mutuals or some hybrid shareholding structure. But at the same time it is also being used to refer to the 'sense of ownership', in other words, the involvement of key stakeholders in decision-making, for example, in the multi-stakeholder governance of a trust where there are no real owners as such since the surplus is distributed to pursue the particular social goal. The Social Investment Task Force (2000) clearly summarises the issue: 'The Task

Force takes the view that not all social and community enterprises need to have social ownership. Some are structured as traditional enterprises while still serving a social purpose and placing great emphasis on their accountability to the communities they serve.'

But in all this discussion there is an inherent assumption that the social aim is positive. Who decides on the legitimacy of a particular social aim? There may well be some social enterprises that could be doing something 'social' but others may not see it in that way. It might also be possible that one social aim may inadvertently work to the detriment of other social or environmental goals.

Despite the fuzziness of the concept, there are several key reasons for using the term social enterprise:

- To raise awareness of the diversity of enterprises which are fulfilling social aims or adopting alternative models of business
- To provide a focus from which to engage with government over legislation or tax issues and to discuss potential links with government policy goals
- To challenge the myth of the necessary superiority of private sector efficiency and innovation
- To highlight the trends towards enterprise amongst parts of the voluntary sector
- To create space and impetus for exploring new innovative models including those that may cross the boundaries of private, not-for-profit or public sectors

This last point is critical. Creating a new term creates space for new ideas and models and can provide incentives to bring together a set of players to explore the potential for new developments.

Ed Mayo (2000) has pointed out that if you think of social enterprises as being along a spectrum between the voluntary sector at one end and standard business at the other: 'you tend to find that the debate about social enterprises tends to be about charities moving into trading, in other words, about 10 per cent along the line. The other side of the spectrum is the for-profit side taking a few steps back – profit-makers doing something on a social dimension. But actually roughly where we are aiming is the 50/50 position and there are relatively few operating there.' The challenge is to address the question of why there are so few and find out what more can be done to encourage innovation and the replication and modification of existing models.

The importance of segmentation

The discussion and examples above illustrate the need to segment the sector and understand its different parts. This is not only because of the diversity of social enterprises but because strategies to support and encourage them may be different depending on the type being considered. Financiers and business advisers particularly need to be able to understand different models of social enterprise when looking to assess business plans and provide appropriate finance or support. The Government also needs to understand the diversity of social enterprise when considering how best to respond to their needs and to the potential of different types to contribute to policy goals. Arguments raised about specific support or tax incentives need to be based on clear definitions of who is or is not eligible and on what particular criteria.

Social Enterprise London has produced materials that set out examples of social enterprises and their development needs. Allan (2001) illustrates some of the variety of models and organisational forms that social enterprises can take:

- *Employee-owned businesses* create jobs and rescue jobs as part of economic development strategies.
- *Credit Unions and Community Finance Initiatives* provide access to finance.
- *Co-operatives* are associations of persons united to meet common economic and social needs through jointly-owned enterprises.
- *Development Trusts* are key actors in community-based regeneration.
- *Social Firms* provide employment and training to people with disabilities and other disadvantaged groups.
- *Intermediate Labour Market companies* provide training and work experience for the long-term unemployed.

- *Social business* governed by trustees or owned by a charity address social needs.
- *Community businesses* are social enterprises that have a strong geographical definition and focus on local markets and local services.
- *Charities Trading Arms* enable charities to meet their objectives in innovative ways, such as Fair Trade companies.

Most social enterprises described above are companies limited by guarantee, industrial and provident societies or companies limited by shares. However, some social enterprises may be plcs, although often having a share-ownership structure weighted towards key stakeholders. There is sometimes a tendency to distinguish social enterprises by organisational form. The key issue is really to ask how different legislative models may be more or less able to realise particular social aims. For example, you could be employee-owned but be either a co-operative or a shareholder model with majority employee shareholding. Discussions about social enterprises need to emphasise the social aim first and not the specific organisational model, in other words, form follows function. However, it is clear that certain legal forms can enable certain types of activity. Andrew Robinson (2000) from the NatWest also points out that: 'ultimately we are looking at structures that are able to manage the tension between commercial viability and social remits.'

The only dangers, or at least caveats, to segmentation is that it may miss some of the innovative hybrids that fall between or outside categories and hence make it difficult for them to access certain services or benefits. Setting out clear typologies may also inhibit innovation since it is describing a status quo rather than opening up the potential for experimentation.

The clearest way to distinguish social enterprise is probably by social aim. Is it about creating a good or service that the market currently under-supplies in a given neighbourhood, or is it about promoting employability or fair trade? In this way, Government is able to determine the social aims it might wish to support in particular ways.

Evaluating social goals

The development of appropriate evaluative mechanisms for social enterprises is critical in order to:

- provide evidence of achievement of particular social goals
- enable business support organisations and finance providers to assess how well or otherwise social enterprises are achieving their aims
- enable the enterprise itself to assess and revise its strategies
- help government compare and contrast different service providers, for example, on appropriate criteria

Not enough attention is currently being paid to developing clear measures of social outcomes alongside financial performance criteria. This means that it is hard to identify whether social enterprises are achieving their social aims and how efficiently they are doing so. There are some notable exceptions. The Wise Group have developed measurements of the softer outcomes of their intermediate labour market models in order to evaluate the 'distance travelled' by people passing through their schemes (Oppenheim *et al* 1999). These outcomes might include, for example, increases in self-esteem, time keeping, or personal hygiene. Social audits, such as those devised by the New Economics Foundation, could be used by all social enterprises (as well as encouraged for all public sector organisations and mainstream businesses) and adapted for different kinds of social remit. The Development Trust Association is setting up a research forum to develop a range of evaluative mechanisms for their activities.

How big is the sector?

A key difficulty in any discussion of social enterprises is that there is no clear understanding of the extent of the sector and of likely future trends. This invisibility is itself a barrier to understanding their diversity and potential. Such information is also vital not only to make a case for the sector but also to alert financiers, government and support providers to the potential level of demand. The Small Business Service is aware of this problem and is consulting on how best to take this issue forward.

Campbell (1999) cites evidence from the US John Hopkins Comparative Non Profit Sector Project which shows that the third sector in the UK accounts for about 4 per cent of UK employment and 4.8 per cent GDP. Unfortunately these numbers do not exactly correspond to the European notion of the third sector. More recent estimates based on work done for the Third System and Employment (TSE) a pilot action initiated by the EU and undertaken by CIRIEC. That data suggests that, across Europe, the social economy as a whole accounts for about 4.5 to 5.3 per cent employment and is growing, with rates in Germany, France and Italy expanding at 3 to 5 times the rate of economic growth (cited in NEF 2000). This job creation potential of the social economy was recognised at the EU Amsterdam and Luxembourg Summits and guidance issued to member states to support its development. Social enterprises are a subset of the social economy. But can we be any more specific about their prevalence?

Types of social enterprise and area based-activity

Certain types of social enterprise may belong to national bodies or there may be local or regional social enterprise support networks or organisations that deal with a range of organisations. We can gain some indication of the extent of activity from these sources.

One study in Scotland (McGregor *et al* 1997) looked specifically at the social enterprise part of the social economy and found that in Lowland Scotland there were about 3700 organisations (including those parts of the voluntary sector with enterprise activities and socially orientated, mutually governed enterprises) with an aggregate annual income of £1billion. About 43 per cent generated revenue from charges and 21 per cent from sales revenue. They estimated that 17 per cent of these could be classed as community enterprise – housing associations, co-operatives, community businesses and credit unions. They also found that as organisations grow they become able to generate their own income stream (suggesting either that generating income allows you to grow or that as you grow you become less dependent on grants).

NEF (2000) concluded from its research into the finance needs of the social economy in Scotland that there is a clear cultural change encouraging not-for-profits to become more business-like and wishing to diversify their income streams. Research by the SCVO (1998) has also shown that there is an element of necessity about this increasing trend since growth in grant income has not matched the growth of the sector and both legacy income and personal donations are declining.

The Local Government Management Board (1998) investigated the extent of local authority involvement with community enterprise – defined as activities which 'have both social and economic goals and operate within and as part of the local economy'. They included retail businesses (community shops, catering co-operatives, coffee bars, food co-operatives); services (community launderettes); leisure and arts projects, environmental projects, finance organisations such as credit unions, care and childcare groups (home care co-ops, after school clubs) managed workspaces, development trusts, furniture recycling organisations and agricultural co-operatives. In a survey of local authorities, with a response rate of about one-quarter, 889 enterprises were supported by 74 authorities. The most common enterprises were furniture recycling schemes, community credit unions, after school clubs, LETS schemes (Local Exchange Trading Systems) and coffee bars.

Social Firms UK (2001) is the national association for social firms defined as a 'business created for the employment of people with a disability or other disadvantage in the labour market. It is a business that uses the market-oriented production of goods and services to pursue its social mission.' 'Emerging social firm' is used to describe those organisations that do not meet the full criteria to be a social firm – including enterprises that are developing trading activity but are still being supported by grant programme finance or that are not yet giving market wages or employment contracts. The Year 2000 Directory of Social Firms UK gives the details of 22 social firms and 50 emerging social firms.

Development Trusts are defined as organisations which are:

- 'engaged in the economic, environmental and social regeneration of a defined area or community
- independent and aiming for self-sufficiency
- not for private profit
- community-based and owned
- actively involved in partnerships between the community, voluntary, private and public sectors.'

Not only are their locations diverse, so are their activities. They build and manage workspace, provide sports and recreational facilities, run childcare centres, promote community development, carry out environmental improvements, preserve and refurbish local buildings run training programmes, support small business, set up community enterprises and much more.' The Development Trusts Association currently has 285 members around Britain (DTA 2001). One example, that of Coin Street Community Builders, was described above.

Mutuals and co-operatives

Leadbeater and Christie (1999) estimated in their book *To Our Mutual Advantage* that there were about 30 million organisations owned by their members or run with a mutual ethos. This group accounts for a total of £25 billion turnover and involves at least 250,000 people. Their estimate was very broad and included all those organisations with mutual and co-operative legal structures as well as organisations and groups that operate with a mutual principle, for example, farm co-operatives, retail co-operatives, parent-led pre-school learning, mutual education, development trusts, building societies and other financial mutuals such as friendly societies or credit unions, community health centres and co-operatives, mutual cash benefit schemes, neighbourhood watch and tenant-led and owned housing.

Looking at specific breakdowns for sectors, they noted, using data from 1997 to 1999, that there were 1,500 worker co-operatives, 544 co-operatives or jointly controlled farm businesses, 300 community well-being and health centres, 293 friendly societies and about 70 building societies.

Data from ABCUL (Association of British Credit Unions 2001) shows that between 1992 and 1999, their membership grew from 236 to 446 credit unions. Individual membership of those credit unions grew from 73,089 to 220,000.

The voluntary sector

We can also try to determine the extent of other types of social enterprise by looking at voluntary sector statistics. The National Council for Voluntary Organisations (NCVO) only bases its figures on registered charities but will include some organisations that we might want to class as social enterprise. However, it is difficult to know how many are actually behaving in this way. Clearly there will be a spectrum of enterprise ranging from fully grant-financed through to total reliance on earned income. Many charities are making use of trading arms in order to create revenue streams which are covenanted back to the charity, partly to overcome restrictions in charity law on the extent of trading activity.

Overall, total income for the voluntary sector in the UK has risen from £14 billion to £10 billion since 1991 (NCVO 2000). There has also been a rapidly expanding workforce growing by 14 per cent between 1995 and 1998. NCVO estimates that the sector contributes a total of 1.89 per cent of GDP (including voluntary help). Statistics of this kind illustrate the economic importance of the third sector or social economy more generally. However, not all trends are so positive. NCVO research found that, whilst small and large voluntary sector organisations are doing fine, middle-sized ones (between £250,000 to £1million turnover) have seen a decline in income. This reduction is believed partly to be due to a fall in individual giving over the 1990s but with the greatest drop being in small donations, charitable purchases, raffles and lotteries (NCVO 2000).

In terms of sources of income for the voluntary sector, government funding has grown, shifting from predominantly grants to predominantly contracts. Trading income increased by 40 per cent between 1995 and 1999 totalling £183 million in 1999 and accounting for about one third of all income generated, much of which arises from the activities of the trading subsidiaries of large charities. The voluntary sector appears therefore to be showing an increased use of revenue-raising activities. Other evidence above indicates that this is arising from a combination of pull and push factors.

A Third Sector Foresight review by the NCVO (2000) illustrates some of the future challenges for the voluntary sector in the UK which illustrate the need to address more enterprising approaches and new sources of income:

- Belief that most government funding will be for projects (through increased contract and programme funding) and that it would be harder to raise money from the public

- There will be a greater demand for the kinds of services that organisations provide
- More voluntary sector organisations will become self-help or mutual
- A greater role for the voluntary sector in cross-sectoral partnerships and more work with business

Moving forward

The figures above show the diversity and extent of social enterprises but there is a clear need to become a lot more sophisticated about how we identify and count them whether at local, regional or national level. A national mapping exercise would identify the range and kinds of social enterprise but more in-depth analyses are required at regional and local levels if appropriate support infrastructure is to be put in place.

When addressing the potential trends in social enterprise and ways of encouraging more such activity, it is useful to consider the history of the development of 'enterprising nonprofits' in the US and the difficulties and opportunities that this approach created. The concept and culture of social enterprise has a much longer history in the US and there are some interesting issues that are relevant to the development of the sector in the UK.

Lessons from the US experience of enterprising nonprofits

The Kellogg Foundation (1999) investigated the observed phenomena in the US that:

> A new generation of innovators and entrepreneurs – committed to using market-based approaches to solve social problems – is unleashing new ways of using resources for the public good…new innovators are generating three major waves of change:
>
> - Social entrepreneurs are changing civic and human services, leadership, and institutions to encompass market-based approaches for appropriate scale, impact, and sustainability

- Business leaders are moving away from one-dimensional charity to multi-dimensional methods of achieving corporate citizenship

- Philanthropists – traditional and emerging – are building on a generation of social investment experiments to devise market-driven and venture capital concepts to intensify the partnerships and shared responsibility of funders and social action organisations.'

They argued that 'new innovators are motivated by the following values and beliefs:

- Outcomes/impact thinking

- Market concepts as a driver for designing social products and services

- Investment is more effective than charity

- Wealth creation should be balanced by public responsibility

- Sustainability of social change needs to be supported through philanthropic and earned income

> The expectations for nonprofits to provide services and achieve social change at a larger scale while also diversifying funding resources are motivating social entrepreneurs to invent organisations that are hybrids of nonprofit and for-profit structures…which require new perspectives and responses from traditional philanthropy.

We can see from these comments that the US concept of social enterprise relates more to a notion of enterprising nonprofits. Both the idea of social enterprise and of social entrepreneurship have been around for much longer in the US. The National Center for Social Entrepreneurs has been running for more than 12 years and has developed extremely useful tools to enable nonprofits to more systematically determine their readiness for implementing market-based approaches in their work. It would be extremely useful to transfer some of this best-practice over to the UK.

Encouraging more social enterprise and social entrepreneurship

The Kellogg Foundation research found that the best way to build on and develop social entrepreneurship would be through:

- *Knowledge management* – capturing, archiving and using knowledge and learning for innovation
- *Human capacity building* – the development of people and the tools they need for leadership, organisational, financial and planning challenges.
- *Deal-making* – the co-ordination of opportunities for finding co-investment

They felt that although there was a lot of isolated innovation, there was a need to bring together knowledge, resources and innovation to become a 'tidal basin' of synergy that catalyses activities to new levels of productivity and impact. They therefore proposed to:

- Establish creative places to learn with peers
- Develop and share effective prototypes and models
- Set up search and recruitment services
- Provide mentoring, technical assistance, and apprentice-style learning
- Foster connections, deal-making and co-investment
- Ongoing mapping, tracking, and diffusion of good practice
- Share assessment and impact measurement processes and approaches
- Trade and barter 'know-how' management expertise and products

They had the idea of creating a network which would bring together entrepreneurs (whether social or not), finance providers, and other relevant players and which would be a 'hot house' and 'magnet' for innovation. 'What we are really talking about are...new ways of mixing or integrating or engaging those new assets and resources and perspectives.' (Reis 1999).

There is clearly a feeling that more could be done to build on this entrepreneurial potential and bring people, resources and ideas together to find new ways to do things. Whilst the Kellogg model has not yet got off the ground, it could be interesting to build on this idea in the UK, perhaps building on the work of the Community Action Network. The key point here is that a space should be created which is accessible by all kinds of interested parties, whether or not they are currently social entrepreneurs, so as to allow scope for innovation.

Recognising the pitfalls

Dees (1998) points out in his paper on *Enterprising Nonprofits*:

> The drive to become more business-like, however, holds many dangers for nonprofits. In the best of circumstances nonprofits face operational and cultural challenges in the pursuit of commercial funding. In the worst, commercial operations can undercut an organisation's social mission. To explore the new possibilities of commercialisation and to avoid its perils, nonprofit leaders need to craft their strategies carefully.

Dees identified five major pressures pushing not-for-profits into entrepreneurial modes:

- a pro-business zeitgeist
- nonprofit leaders are looking to deliver social goods and services in ways that do not lead to dependency in their constituencies
- nonprofit leaders are searching for financial sustainability and see earned-income generating activities as more reliable funding sources than donations and grants
- The sources of funds are shifting as foundations are trying to push grantees to become self-sufficient
- Competitive forces from for-profits

These five forces have a resonance in the UK although foundations as such do not exist in the same way as in the US and still tend to give money in the form of grants. The current interest in community finance initiatives in the UK and in social equity, however, is related to the view that more organisations could be weaned off reliance on grants. Use of loans or social equity can be important ways for social enterprises to fund themselves and for the voluntary sector to take on the discipline of external finance. Funders in general need to re-assess the ways in which they finance social activities and more clearly understand when and where grants are appropriate as opposed to other forms of financial support or help in kind such as management expertise. However, this approach is not without danger. Government might, for example, believe that these trends indicate that many not-for-profits might be able to become self-financed. Clearly there will always be activities and organisations that cannot and should not have to be self-financed whilst others will mix trading activities with specific services that fulfil particular policy objectives and which therefore merit being either publicly subsidised or funded.

Dees also sets out ways in which not-for-profits are generating income. These include:

- commercialising core programmes through accepting contracts
- fee-based work
- charging beneficiaries
- business enterprises
- direct relations with for-profits
- cross-subsidise
- sliding fees for clients or third-party payers with a vested interest, for example, government, or people buying goods, indirect income from advertising or cause-related marketing.

The key point is that it is important to identify potential sources of commercial revenue but also to recognise the tensions and issues that may arise. The danger is that new sources of revenue can pull an organisation away from its social mission, particularly if the nature of the income generation is not directly related to the social aim itself. Clearly if you are a social business, then your social and economic activity are inextricably linked by the fact that you have created employment for disabled people. However, if part of your income generation involves activities that are commercial and which cross-subsidise your social goals, then deciding how much resource and expertise to put into the commercial side and how much to put into your social aims will be more difficult. There may well be disagreements amongst different stakeholders if each has a different interest in some of the outcomes or the surpluses generated. Issues that may arise can include, for example, whether charging fees will change the relationship with beneficiaries or: 'Will the demands of running a competitive commercial laundry create pressure to employ only shelter residents who already have good job skills?' (Dees 1998).

Dees points out that 'commercial programs don't need to be profitable to be worthwhile. They can improve the efficiency and effectiveness of the organisation by reducing the need for donated funds, by providing a more reliable, diversified funding base, or by enhancing the quality of programs by instilling market discipline.' The importance of help in-kind and volunteers does not necessarily reduce in importance in any of these models. There will therefore always be a spectrum of activity from full philanthropic support, to partial self-sufficiency to total commercial sustainability. The point is to ensure that enterprise activity enables the mission to be accomplished more effectively rather than creating wealth for its own sake. The hope is that if those organisations that can generate income do so then grants and other philanthropic resources can be better targeted at those organisations that really need them.

There is a need in the UK to respond to the trends for some voluntary sector organisations to become more entrepreneurial and to encourage others to consider this approach. However, as pointed out, it must be clear that the degree of 'enterprise' activity taken on must enable the mission of the organisation rather than be an end in itself. It also has to be recognised that there is a great deal of cultural reluctance and lack of knowledge amongst many voluntary sector managers about these issues. It will be important to engage voluntary sector networks and perhaps encourage Community Voluntary Services (in partnership with the SBS) to take on this agenda and to develop appropriate support services. In London, Social Enterprise London is setting up a partnership to create a 'bridging mechanism' for those organisations who wish to move from grant-dependency to a greater reliance on self-generated income.

Advice and support

There is widespread acceptance that the current advice and support structures for social enterprises are weak, fragmented and variable in quality. As a result of the recommendations made in the Strategy for Neighbourhood Renewal (SEU 2000), the Small Business Service is now including social enterprises as part of its remit.

Several initiatives have aimed to create comprehensive support structures which build on current provision and which assess appropriate needs. Social Enterprise London, for example, has developed models of relevant advice and support and is part of a coalition which has ensured that support for social enterprise is included within the London SBS franchise. They have produced materials which both describe social enterprises and set out models of their development and hence their advice and support needs (Allan 2001). The Oxford Mutuality Taskforce and the Heart of England TEC and Business Link have set up a strategy for social enterprise support which is being locally delivered by Social Enterprise Oxfordshire, a partnership of Business Links, Enterprise Agencies, specialist advice agencies, social enterprises and the voluntary sector. A key part of this strategy has been how to encourage latent demand for advice and support. They have been exploring partnerships with 'community agents', organisations who are able to access a variety of existing or potential social enterprises in order to encourage them to make use of the available advice and support infrastructure.

There seems to be a consensus that social enterprises share 80-90 per cent of their support needs with mainstream companies (Allan 2001). The 10-20 per cent that is different relates to the value proposition or social aim and the ways in which that is to be managed. Examples might include the processes and tensions of multi-stakeholder governance. The process of starting a social enterprise may also be very different to that of a mainstream business:

> It often entails a social validation process involving some combination of public, private, voluntary, community

> institutions and while the termination of a private business can be thought of on the whole as a natural turnover in the entrepreneurial class, the demise of a community enterprise can be a traumatic event that can effect many people and inspire mistrust of the whole approach (Robinson 2000).

Because of the diversity of social enterprises, it is necessary to ensure that the advice and support infrastructure, whilst providing generic services, is able to access specific expertise relevant to enterprises with different social aims. There is a need to build on and extend the existing levels of self-help by creating generic and specific networks for social enterprises. The Community Action Network (CAN) is a good example that, through its electronic network, creates links between organisations and individuals to both create synergies, new ideas and to trade amongst each other.

Techniques that have become established for mainstream business could also be extended to social enterprise. For example:

- *Corporate venturing* – there are several examples of existing social enterprises (or mainstream businesses) incubating embryonic businesses
- *Clusters* – there is some evidence of clusters of social enterprises, often around co-operative development agencies, which indicate both the value of advice and support but also the positive impacts of existing social enterprises in encouraging further activity
- *Incubators and managed workspace*
- *Co-operation through networks* – could address the need for economies of scale, say in accessing government contracts or in marketing goods and services. Care co-operatives in Italy, for example, work in consortia (SEL 2000c).

Expertise on social enterprise is currently concentrated in only a few legal or accountancy firms. There is a need to raise awareness through relevant professional associations of their diversity, trends and needs.

Access to finance

Social enterprises generate income in a variety of ways and, like other businesses, need access to finance both in order to start-up and to expand. Finance and funding streams for social enterprises range from grants, through government programme finance, to standard bank loans, community finance initiatives and equity (whether standard venture capital or social venture capital).

However, there are clear problems for social enterprises in trying to access finance. Andrew Robinson (2000) set out some of the issues facing social enterprises when trying to access mainstream bank finance:

- Security is often incomplete and assets in deprived areas may be worthless
- Banks can be conscious of their reputation and loathe to fund something that might be high profile if it fails
- A need for knowledge and understanding about where risk lies. The risk is not always operational – it may be political

Banks acknowledge that they have a fragmented view of the sector, do not understand how they work and are generally unaware of how much of their lending goes to social enterprises or to the social economy more generally. NatWest was surprised to learn that 25 per cent of their small firm accounts are actually not-for-profits (Robinson 2000).

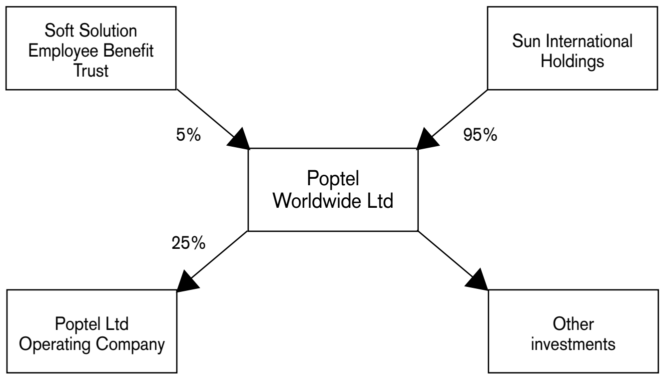
The Social Investment Task Force (2000) investigated access to finance for small firms and social economy organisations including social enterprises in disadvantaged areas. It set out a range of recommendations including a Community Investment Tax Credit to encourage private investment through community development financial institutions (CDFIs) which can invest in both not-for-profit and profit-seeking enterprises and a Community Development Venture Fund.

Following developments in the US, the Task Force report also recognised the rising interest in social equity where a variety of models can be developed for social venture capital funds that provide a range of rates of return. Equity is attractive for social enterprises just as for other companies since it is patient finance that is often linked to hands-on support. There will only be a few social enterprises that will be able to satisfy the high returns demanded by formal venture capitalists or business angels (who will, in any case, have very little experience of such businesses). There is a need for further UK research to understand the motivations of different types of social investor.

Equity raises key questions about corporate control. With social equity there is probably no presumption of control being acceded to outside shareholders but for more formal equity, outside shareholders can create some difficult issues. Day Chocolate has a tripartite share ownership consisting of the primary producer co-op, Twin Trading and outside shareholders. For a social enterprise to retain its remit, it is probably necessary to ensure that stakeholders other than outside shareholders hold a majority shareholding and/or to offer shares that are some form of non-voting preference share. Another difficulty is that various social enterprise structures such as charities and companies limited by guarantee cannot access equity. Complex restructurings are often required to overcome these difficulties, for example, in the case of Poptel, the first worker co-operative business to raise venture capital funding.

Poptel is an employee-owned co-operative Internet Service Provider that is amongst the top ISPs in the UK as measured by financial performance and technical service quality (Corbett 2000). Many Internet companies incorporate different types and extents of employee ownership to attract and retain employees. Poptel believe that their structure of employee ownership incorporates the fundamental co-operative principle of one person one vote which 'creates a deeper level of employee commitment, a stronger staff team and shared values with a major part of its customer base – co-operatives, trade unions and charities'. They were originally constituted as a company limited by guarantee since they started with less than seven members but under this model could not access equity finance necessary for a fast-moving industry requiring substantial investment. To overcome this problem they established Poptel Ltd, a company limited by shares with 75 per cent of the shares held as a block through Soft Solution Ltd, the original Poptel. Governance of Poptel Ltd incorporates employee representatives as well as outside shareholder representatives. The equity comes from Sum International Holdings, a venture capital company that invests in hi-tech businesses and is supportive of the co-operative ethos. This money is channelled through a holding company Poptel Worldwide that will be able to access other investors, 30 per cent of whose shares will be reserved for social investors including other co-ops, trade unions and local authorities. Investments made by this company will be based on ethical principles. It also acts as an exit strategy for venture capitalists. An Employee Benefit Trust enables Poptel employees to benefit from the investments made.

Figure 2.1



To ensure the maintenance of the co-op principle for Poptel Ltd, co-operative ownership will not be allowed to fall below 51 per cent. They are also considering the creation of a multi-stakeholding co-operative structure which would involve customers and other co-operatives.

There is also scope for encouraging social business angels. Triodos Bank has been running a service Triodos Match that pairs social business angels with social enterprises. The kinds of businesses considered for support range from renewable energy companies to complementary health. Whilst only its first year of operation, 5 or 6 matches have been made. Business angels come from a range of backgrounds and may expect a variety of investment returns, typically from 10-30 per cent. That is in contrast to standard returns of about 25 per cent and above. There is no reason why mainstream business angels could not be encouraged to become involved with social enterprises encouraged by the new challenges and potential personal satisfaction. The National Business Angel Network (NBAN) should be encouraged to present social enterprise proposals to existing angels and to support the creation of other more targeted matching agencies.

For many existing not-for-profits, there is also a difficulty that many people do not have incentives to borrow, would rather seek grant finance, and do not want the discipline that goes along with external finance. There is therefore a demand problem. Some of these disincentives come from reliance on grants or the strictures of certain types of programme funding as well as lack of knowledge and ability to prepare business plans. The culture of many organisations is to be revenue-maximising not surplus-generating. There may also be an ideological reluctance to becoming involved with commercial banks. There is therefore a need for advice and support to be available which sets out a range of options for potential or existing social enterprises and which deals with the change management processes involved in a sensitive way.

3. Social enterprises and government agendas

Competitiveness

To be competitive is to be able to compete successfully in markets (or to create new markets), by ensuring market share, being profitable and sustaining that advantage over time through the production and sale of innovative products and services. It also means being efficient about the use of resources. What the UK needs are businesses that can produce high quality goods and services that ensure high wages for employees and that can retain their advantage over time through innovation and branding (CPPBB 1997). Do social enterprises have a role in this agenda? Can their diverse structures confer competitive advantage?

And is this the whole story? Aren't we also concerned about the nature of the goods and service that are produced in markets or how they are produced and their effects on wider society or on the environment? What about questions of how the returns from economic activity are distributed, the working conditions and involvement of employees, the non-exploitation of customers or their potential involvement in ensuring the appropriate design or specifications of goods or services?

These are all legitimate issues of concern to society and government. They are also the subject of a variety of government interventions ranging from, for example, anti-discrimination legislation to competition law or to environmental legislation. There is also growing pressure on companies to pay more attention to the broader impacts of their activities on society and on the environment. An increasing number of companies are introducing social and environmental audits and marketing themselves on the basis of their positive contributions to these agendas in order to respond to governmental and consumer pressure.

Companies are also taking on a variety of business models which may involve employee ownership through stock options, involvement in decision-making or even customer share-ownership and involvement in design. Companies like the Body Shop base the production of goods and services on high ethical standards such as no animal testing of products. There is therefore no one simple business model against which social enterprises can be compared and, as noted above, all businesses could be called social in some respect. Additionally, entrepreneurs can have complex motivations often not primarily aimed solely towards profit.

In this broad conception of enterprise, we need therefore to understand how social enterprises fare on some of the above criteria and how different are they in reality to more mainstream businesses. Government should be interested in exploring the nature of different competitive models, their social and environmental impacts and on their effects on more mainstream businesses.

A good place to begin is with questions of ownership. Do differences in ownership structure lead to fundamental differences in outcomes for enterprises and how do such structures better enable certain social ends?

Who owns and why?

A key area of debate and discussion is around ownership and its relative benefits both for competitiveness, or for employees, shareholders, consumers or other stakeholders including the wider community. The social enterprises in this context therefore refer to businesses which are not owned predominantly by outside shareholders or by owner-managers but by other stakeholder groups – generally consumers or employees. In reality, the distinctions are less clear-cut and there are examples of hybrid ownership such as consumer and employee shareholding, shareholder and employee ownership or even a range of stakeholder owners.

There is strong evidence that employee ownership combined with participation has effects on productivity and performance. Evidence show that profit sharing shows the highest productivity gains, followed by ESOPs but with the greatest gains arising from worker participation. If you combine all three, you find the biggest effects on productivity and also positive impacts on management-employee relations, and in employee perception of influence over their work (Freeman 2000). There is also evidence of employee ownership on increasing retention rates.

The examples of St Luke's Advertising Agency and Poptel mentioned above illustrate the viability and success of employee ownership models.

Allan (2000), for example, argues that the mutual advantage is particularly relevant to the knowledge-based economy since key assets are intangible, often contained in the memory and skills of a firm's employees. The argument therefore that all profits should be returned to shareholders is severely reduced when the main providers of capital are in fact the employees who provide human capital.

Clearly more mainstream business models use these techniques through mixes of employee involvement, share ownership and profit sharing. There are also examples of very innovative business models which also incorporate customer involvement (through say loyalty schemes) and ownership. The benefits of co-operative or mutual principles to support competitiveness also extend to the creation of business networks, for example, which might create joint marketing groups to achieve economies of scale and access markets.

These examples illustrate the difficulty of clearly demarcating the social enterprise terrain but show the importance of looking at diversity of business models and their potential effects on a range of sectors both in terms of their effects on competitiveness but also on employee satisfaction and conditions and other social issues relating to customers or the wider community.

The building societies have maintained that their ownership structure – that of a consumer mutual – leads to better outcomes for consumers, namely, lower mortgage rates and higher interest payments on loans than comparable banks. Despite the recent wave of demutualisations that proposition appears to be true. For example, data from the Building Societies Association (Cole 2000) shows that the remaining building societies actually increased their share of the mortgage lending market from 23 to 28 per cent between 1997 and 1999 while mortgage banks such as Abbey National or Halifax have seen their share fall from 45 per cent to 24 per cent of the market. Evidence also shows that the difference in margin between interest received and interest paid is on average 1.97 per cent for converted mortgage banks and 1.3 per cent for building societies. The theoretical argument for this difference is fairly simple. In the absence of external shareholders, financial mutuals should be able to offer a better deal to consumers because they do not have to pay out dividends. Any surpluses generated therefore can either be used to build up reserves or benefit the consumer owners through preferential rates or through 'mutual dividends'. The counter-argument is that these benefits are offset by the fact that such organisations are less efficient since they are not open to scrutiny and monitoring by outside shareholders and therefore there is less incentive on management to maximise their owners' interests. But we know that the shareholder model of control is less effective in practice than theory and there is no reason why good governance procedures cannot be created to appropriately incentivise management.

The remaining building societies are showing strong performance but the demutualisation threat still stays and different societies are adopting a range of techniques to try to prevent or deter future demutualisations. There are also discussions about how whether other benefits of mutuality – involvement in decision-making and hence being able to assert 'ownership' rights – would encourage people to be more committed to mutuals. It is not at all clear, however, that the members of large mutuals are particularly bothered about using these rights (Waite 2000). There is broader agreement, however, that the key value proposition in addition to the preferential rates revolves around trust, particularly necessary in financial industries where products are complex and consumers unsure of what they are buying.

There are other theoretical arguments for consumer mutuals. In the section on public interest companies below, the merits of consumer ownership are shown for a monopoly situation where the consumer would be likely otherwise to be exploited. However, in both this example, and in the case of financial mutuals, a key issue is the high cost of governance, particularly in relation to the problems of decision-making when consumers are not homogenous (Hansmann 1996).

Beyond stakeholder ownership

Several of the social enterprises in the next section on social exclusion operate in competitive markets. For example, social firms aim to be self-financing whilst creating employment for people with disabilities. The nature of the product or service will be fairly standard. Other social enterprises aim to create new markets and exploit unfulfilled niches that the private sector has not or cannot fill or are basing their unique selling proposition (USP) on their proposed comparative advantages, for example, trust.

Yet others are more concerned with the nature of an existing market. A good example would be fair trade companies which aim to ensure appropriate rewards to primary producers. Social enterprises might alternatively focus on the nature of the good or service itself, for example, ethical tourism, ethical investment or organic food.

What is striking though is the paucity of examples of large social enterprises in competitive markets.

Issues for consideration

These examples illustrate the fact that whilst many social enterprises can only survive and thrive by being able to compete with mainstream business, they are also producing social benefits above and beyond the economic which, it might be argued, are therefore worthy of public support. Are we therefore really talking about a level playing field? And does the focus on productivity or competitiveness actually narrow the discussion rather than direct it at the real issues which are about promoting certain forms of enterprise that support the social good or the public interest?

When the Department of International Development, for example, was considering giving a grant to set up the Day Chocolate Company, the proposed support had to be checked against EU State Aid rules which disallow subsidies to enterprises in competitive markets unless there is a demonstrable market failure. Generally, market failures are seen as negative, but in this case, the business actually produces the opposite – positive social benefits. There had been no similar precedents but eventually the grant was allowed. This issue needs to be clarified since the genesis of other social enterprises might be similarly affected. The case also illustrates why there has to be a great deal of clarity over just what types of social enterprise and social goals are of legitimate interest.

It would also be interesting to know whether the presence of social enterprises within particular sectors has effects on mainstream businesses and whether promoting more social enterprises might encourage greater corporate social responsibility. Any positive effect would be a clear argument for supporting such enterprises but at present with few prominent examples there is little critical mass to have much effect. It may also be the case that after social enterprises have filled certain 'missing' markets and demonstrated their viability then other more mainstream businesses may then enter those markets, for example, in the insurance of 'high risk' people or banking services in disadvantaged areas. This should be seen as a positive outcome of the potential demonstration effect of social enterprises.

It is also unclear whether different enterprise forms have equal access to government initiatives designed to promote competitiveness. For example, it is currently not possible for co-operatives to access the Enterprise Investment Scheme or for partnerships such as John Lewis or Ove Arup to use Employee Share Option Scheme tax incentives. Government-funded business advice organisations have historically only dealt with mainstream business.

Government enterprise incentives and support should be accessible across the board. Equally there is little expertise amongst professionals such as accountants or lawyers who can advise on complex legal or financial considerations and very little access to good management expertise and to advice and support which can deal with the particular issues facing different types of social enterprise. Access to finance is often hard and, particularly in the case of equity, is sometimes impossible to access through a variety of social enterprise legal structures such as trusts or co-operatives, thus necessitating complex restructuring of the organisation and often difficult questions over ownership and control.

There is a need to look at different sectors of the economy and explore the diversity of enterprise forms, whether social or otherwise, in order to have a greater understanding of the potential for social enterprises, their particular social aims and how they are achieved, how viable and competitive they are and the barriers preventing their development and sustainability. Whilst there has been greater understanding of knowledge based industries and the different dynamics and relationships between enterprises in different sectors, there is still a general bias towards manufacturing in policy and practice (Westall and Cowling 2000). The DTI has announced that more resources will be devoted to sector work but part of that should include addressing alternative business models and the potential of social enterprise.

But a key question is how many entrepreneurs are out there who would want to create social enterprises. A greater understanding of the motivations of those people who currently set up and run these enterprises would help. At the same time, if we are serious about this agenda, there is a need to raise awareness of the possibilities of alternative enterprise forms to the general public and particularly those considering starting up and running their own enterprises.

Public interest companies

Nowhere is the discussion around alternative enterprise models more salient for government but given remarkably little attention than in the running of 'public interest' companies. The lessons of the recent privatisations have been mixed. While undoubted benefits have arisen from the privatisations of electricity, gas and telecommunications this is now clearly not so true with rail or water. Despite this, the Treasury particularly seems wedded to the view that 'privatise and regulate' is the best model to ensure adequate private sector managerial discipline and hence efficiency and to enable appropriate levels of required investment.

It is in this frame of mind perhaps that London Underground has been promised a new public-private partnership as has the National Air Traffic Control Service (NATS). Whilst outside commentators have proposed a variety of alternative models, there seems to be resistance to their exploration and consideration. The deliberations of The House of Commons Environment, Transport and Regional Affairs Committee (2000) consultation into *The Proposed Public-Private Partnership for National Air Traffic Services Limited* clearly sets out the tensions that arise. There were several reasons cited by government to support the view that a public-private partnership should be set up for NATS:

- To remove the danger of safety regulation and operational responsibility being in the same body
- To acquire the required investment in order to meet the increase in air traffic
- Private sector management expertise and discipline to improve management performance, marketing and financial management

The model proposed in June 1998 was that of a partnership between the public and private sectors with the majority of shares in a 'strategic partner', with 5 per cent going to staff, 49 per cent to Government and a ‘golden share’. The Select Committee Enquiry led to the following concerns about this proposal:

- To maximise return on investment, profits would need to be increased by raising revenue or cutting costs. It was felt that the former would be hard even with increased volume because of the need for investment to increase capacity.
- It is likely that charges would be raised since NATS is an effective natural monopoly with no competition. If a regulator is put in place to prevent excessive price rises then, in order to generate profit, costs would have to be cut. There is, however, widespread agreement that NATS is already highly efficient and that safety might be jeopardised if cuts were made in operations.

The Government does not believe that privatisation will be ‘detrimental to safety’ but yet cannot point out where costs might be cut to enable the generation of adequate profit to return to shareholders in dividend payments. It was thought that diversification might lead to increased profits, but there is only one known case where a foreign government has allowed a foreign contractor.

There are several alternative models abroad – including independent public corporations and trusts. The former is similar to the current model for the UK Post Office and is the one adopted in New Zealand. It meets all the criteria of a PPP but would put safety first as part of its remit and could take on other activities. The Treasury argues that they would not receive any payment for this proposal and that there would be little incentive for efficiency. But since NATS appears already to be highly efficient it raises questions as to why it is necessary that private sector discipline would do any better. We know that the idealised model of an efficient private sector spurred to ever greater innovation and cost-effectiveness by the power of outside shareholders is something of a myth. If anything, shareholder pressure has been shown to result in short-termism by managers, who are so concerned about the threat of takeover that they focus on maximising or maintaining dividend payments even in the light of fluctuating performance and investment needs (CPPBB 1997). If it is true that certain skills are missing, for example, project management, then why cannot they be employed under any model? And equally, there are surely ways to incentivise management to meet the required goals. If equity is required, it can be brought in through a limited share issue perhaps as non-voting preference shares.

An example of a trust model is that of Canada which operates a non-share capital corporation with directors representing aviation, unions and government and with other interests represented on an advisory committee. Initial funding came from bonds. Arguments against this approach are that again there are few incentives to be efficient, there would be no access to management expertise and no reason to seek other activity if there was no profit imperative. However as the committee report points out, the directors, particularly the airline representative, have a vested interest in seeing efficiency and hence low costs.

There seems to be a tendency by the Treasury to hold onto a model of private sector superiority even if practically and theoretically other models could be just as viable and perhaps more likely to balance social aims with cost-effectiveness. There is a real need for debate within and outside government about the merits and demerits of different approaches and research conducted to ensure that any questions about differential performance might be answered. The Select Committee concluded: 'We are disappointed by the quality of the arguments used to support the case for the public-private partnership, which have often obscured rather than clarified matters.'

The incident over Kelda also illustrates that perhaps the original water privatisation model was flawed and could have benefited from a more innovative approach. Kelda Group, a water and waste company, put forward proposals to split off the Yorkshire Water assets of reservoirs, pumping stations and network of underground pipes to a Registered Community Asset Mutual (RCAM) owned by customers on a non-profit basis. It would be fully debt-financed and contract out service delivery. The theoretical arguments for this model were set out by IPPR some years ago (for example, Holtham 1998). Since total equity finance is not necessary for a water asset company, the absence of shareholders should cut costs for customers since there is no loss of dividend payments. Additionally, water is a natural monopoly – in other words, where there can be no other provider because the infrastructure cannot be replicated – and in private sector hands there would be a tendency, because of the lack of competitive pressure, to increase prices to customers. If the customers own the organisation they are unlikely to exploit themselves and this tendency to price rises is removed.

It is fairly clear that other options were not considered at the outset and that subsequent performance has resulted in a situation where the private sector model is proving somewhat shaky. Shaoul (2000) noted, however, that unfortunately the RCAM model is probably not appropriate now as a solution to the current difficulties for Kelda, not because of its inherent lack of viability, but because, if the assets were sold to a mutual, the level of debt incurred would be too high and would result at the very least in reduced money for investment and at the worst, upward pressure on consumer prices.

There are also some other difficulties. Arguments are made that consumer ownership would enable reduced outside regulation since public interest criteria would be incorporated with the remit and governance structure. But why would a mutual model necessarily be any better at ensuring that the needs of all appropriate stakeholders are met than would be a not-for-profit trust with a board and representative governance? This is an interesting point and poses a key difficulty for mutuals – why does consumer ownership necessarily confer any benefits above and beyond a not-for-profit that could distribute surplus (through reduced prices) to consumer and which would manage differing stakeholder needs (business, government, environmental, consumer). Indeed you could argue that the trust model would be more democratic since it represents every consumer, not just those that pay the bill, and that the presence of government representation could help ensure that decisions were made for the long-term rather than to satisfy the short-term interests of consumers. Of course, government is subject to its own pressures. One might also consider a mutual part-owned by consumers and part-owned by government in order to surmount the issue of consumers' short-termism.

Following a similar situation, it was announced in November 2000 that Western Power Distribution was going to sell Welsh Water – the regulated water and sewerage business serving much of Wales and some of England – to Glas, a company limited by guarantee which is owned and controlled by members who will not receive dividends from the company.

The US provides a very interesting test-case and some unusually available evidence on the relative performance of co-operatives, trust (or in this case municipally-owned), and private sector utility operation. Academic analysis indicates that relative efficiency between investor-owned water and municipal water companies actually shows on balance that the latter appears to be more efficient – at the very least, there is no clear link between ownership and performance on purely economic criteria. In electricity, co-operatives seem to be slightly less efficient and municipal utilities more, so although it is hard here to compare like with like since often co-ops were set up in areas which the private sector would not find viable (Morse 1999).

The decision of which model to take up should be based on arguments of appropriateness to deal with the particular issues arising for that industry rather than the *natural* superiority of one form over another.

Tackling social exclusion

Policy Action Team 3 of the Social Exclusion Unit's investigation into regenerating deprived areas, which culminated in a *Strategy for Neighbourhood Renewal*, was the first government document to specifically mention social enterprises (HM Treasury 1999). The report, which tended to conflate social enterprises and the social economy, noted that the 'social economy can be effective at developing services which may be unattractive or inappropriate for the private sector, or cannot be delivered effectively by the public sector.' The report recognised that social enterprises 'can also be valuable in engaging local people in economic activities in ways that public agencies have found difficult' and are therefore ways of creating and supporting community-led regeneration and producing social capital in the areas in which they are found. It is now well-known that regeneration strategies that do not involve the community stand a greater risk of failing to achieve their outcomes and being unsustainable.

There is a variety of areas where social enterprises have a key role in social exclusion and regeneration and which therefore make them of interest to government. They can:

- Create employment for the unemployed and marginal groups or increase employability through training and work experience – for example, The Wise Group, Furniture Resource Centre or Acceptable Enterprises.

- Create environmental improvements
- Provide goods and services that are either under-supplied, too expensive or inaccessible to people living in certain areas – for example, community businesses such as food co-operatives, credit unions or child-care.
- Support the creation of new markets and new economic opportunities – for example, community-owned managed workspace for small businesses and social economy organisations, or services such as home help that are often based on trust relations and which can provide new sources of locally-based employment.

There is broad acceptance that social enterprises can help to create the mechanisms for sustainable regeneration strategies. We know that an area which may be highly disadvantaged on measures such as the Local Index of Deprivation (a broad term which measures relative income, employment, health outcomes, education and training, housing provision and access to services) can also have high rates of measured GDP growth and business activity. This apparent anomaly occurs because that economic activity is not contributing to a virtual cycle of growth and employment creation because it does not necessarily lead to increased employment for local people, and incomes or profits are not necessarily being spent in the area (Westall *et al* 2000).

Social enterprises do two critical things to support sustainable regeneration. They can help to create pathways for people to access employment or create their own businesses and they can help to retain money in an area and attract it in rather than allowing it to seep away. There has been criticism that social enterprises do not create many jobs. However, social enterprises may be providing jobs and training for people who are the hardest to employ or who are least likely to be employed in mainstream businesses, for example, those with mental disabilities. They also have a role in creating broader employment possibilities and growth through say community-owned managed workspaces which can create accessible premises for a range of social and mainstream enterprises.

Social enterprises can also create greater community involvement in local regeneration and also greater community control over local development. The example of Coin Street Community Builders shows how community ownership of land and control over planning decisions can create mixed use retail and housing which puts the community first rather than the interests of property developers. This model could be further applied in areas which are regenerating in order to retain a mix of local retail and social economy organisations partially subsidised by the rents of brand-name shops that will come into an area but at the same time drive up rents and make it hard to maintain a diversity of goods and service provision. IPPR and NEF suggested further work in this area in their report on *Microentrepreneurs: Creating Enterprising Communities* (Westall *et al* 2000).

A study by Mike Campbell (1999) for the European Union identified the importance of the third sector and social enterprises in local economic development. He focussed on the ability of the third sector to be able to deliver currently unmet needs for goods and services such as home help and childcare, housing improvements, security, culture and sport, which are difficult to supply by either the public or private sectors. Filling these gaps not only fills unmet needs but can also act as a source of new, often locally-based, jobs.

Campbell argues that the third sector has unique advantages in responding to these market needs, by having:

- *Multiple objectives* – which relate to meeting the needs of users and customers rather than just profitability.
- *New forms of work organisation* – which can involve higher levels of participation and involvement in the organisation. This involvement can have implications for the way in which goods and services are produced.
- The ability to create community confidence and involvement – thus allowing the community greater control over their lives and over local development. Being close to the community and understanding needs is another way in which the third sector is able to create appropriate goods and services.
- *The creation of new sources of innovation* – which arises from their flexibility as well as their ability to harness a range of financial resources, and help in-kind or volunteer input.

Ultimately, he argues, they are part of a new approach to local development which adds value through the formation of enterprises that fundamentally incorporate equity issues and social goals and which contribute to community-led bottom-up strategies to regeneration.

He believes that these market opportunities are growing and exist particularly in personal services which have a high relational content and where the quality of the service depends on the relationship between the producer and consumer which are hard to specify in contracts. 'Imbued with broad aspirations, free from pressure to generate profit in the short term and able to mobilise capacities for social innovation, these institutions reveal the market economy's unsatisfactory response to existing needs, identify these needs, develop these needs and in a more global manner, will legitimise the existence of such needs.'

The SEU report into Enterprise and Social Exclusion (HM Treasury 1999) identified several barriers to the development of social enterprises and the social economy:

- Little or no support services
- Lack of demand for goods and services and a need to widen markets in order to create viable businesses
- Lack of appropriate evaluative models to measure the social benefits
- Over-complex and varied legal structures which can hinder start-ups eg restricted trading under charity rules
- Structure of funding – particularly complex and fragmented government funding sources ranging from European money to local area challenge bids.
- Inability to access mainstream finance

In addition to suggestions for a Social Investment Task Force and the promotion of advice and support through the Small Business Service, both of which have been taken up, other recommendations included:

- DETR to research evaluation models – both financial and social
- SBS to review legal/regulatory framework to assess scope for simplification
- DETR to research the potential for 'social labelling' similar to fair trade labels for UK social enterprises help to increase

demand for certain goods by focusing on the social benefits of what is being produced or how it is being produced.

There are other issues which require attention:

- The need to ensure that local partnerships aimed at tackling regeneration have an understanding of the potential of social enterprises and how they can access knowledge and expertise about what works
- The question of how you encourage more people to consider setting up social enterprises in deprived areas

The way in which social enterprises respond to issues of social exclusion are not just applicable to deprived areas, but also to supporting opportunities for disadvantaged people, helping to create social capital and supporting community-owned strategies for local economic development and therefore should be an integral part of all local government strategies.

Modernising local government

Geoff Filkin (2000) set out a model for the likely future of local authorities:

- Community leadership will be the key role for local authorities with some delivery but this will not be the central objective
- Responding to increasing citizen desires for individualisation in service delivery
- Citizen-focused and joined-up services

He added that since the individual local authority is not best placed to manage risk or investment, they will look for new service delivery models and strategic partnerships and seek economies of scale through regional or subregional production units. Best Value will be balanced by another trend – that of giving power and commissioning choice or policy decision-making to localities or to individuals.

Looking at these developments, it is clear that there is room to potentially engage social enterprise both in service delivery and also in creating models which may embody new forms of relationship between local government and individuals and communities. The need to deliver on the rhetoric of 'enabling government' and 'active citizenship' should provide increased possibilities for organisations that achieve 'public interest' outcomes and which are able to engage people directly in service provision, decision-making and representative governance.

Mick Taylor (2000) sets out a model of how social enterprises can potentially combine the best of the public and private sectors:

Private sector energy		**Public sector values**
innovation		local commitment
responsiveness		employment practices
gettings things done	⟷	commitment to users
efficiency		accountability
entrepreneurial		value base
taking opportunities		equity and empowerment

He cites other potential benefits of social enterprises and the partnerships that can be formed with government since they:

- Retain public control and local influence over the quality and delivery of services
- Are service providers with permanent local presence
- Have ethical and social values, including the needs of consumers and services users at their core
- Empower and engage staff for better service quality
- Can access external capital
- Give direct accountability to service users through democratic participation
- Can help to achieve specific social or economic objectives in line with the council's broader strategies

Social enterprises and other parts of the third sector are already engaged in certain areas of public service delivery and in delivering goods and services within local areas in which there is a public interest and which are often complementary to local authority services. Some examples of the latter were given in the section on social exclusion above. Examples of more direct service delivery models are given below. However, there is limited data available to determine the level of involvement vis-à-vis the private sector. This paucity of information is a severe barrier to creating a greater awareness of the third sector and social enterprises in service delivery and in public-private partnerships. The Department of Health, for example, no longer distinguishes its service provision by sector and hence makes it virtually impossible to assess trends (Westall 2000).

Health and welfare

Pestoff (1998) argues that social enterprises are a way of changing a welfare state into a welfare society which incorporates good work conditions for employees and the benefits of empowered citizens. He uses examples from Sweden where there has been experimentation into alternatives to privatisation or public provision, believing that such models can incorporate effective multi-stakeholder governance.

In his empirical evidence, Pestoff cites an example of a study of child-care services in Sweden which looked at the potential advantages of parent co-ops, worker co-ops and voluntary sector organisations. He found that all three types appeared to create active jobs which allow more control over decision-making, more social support and often more client involvement. He argued that such models need to be seriously considered since they can improve working conditions and create added-value for clients. Parents appear very positive towards co-operative child care: 'The overwhelming majority of parents with experience from both co-operative and municipal day care services state that they prefer co-op day care.'

There are some innovative models that involve hybrid ownership which can empower both users and staff in partnership with health and social care purchasers. The Co-operative Union and UNISON are currently formulating plans for residential care co-operatives with both worker and consumer ownership whereby the workforce are able to participate in management and local democractic control and user involvement arises from client or client representatives (often family members) as owners. The co-op board will have worker and consumer representatives alongside other appropriate partners including the local authority and a local businessperson. Another Swedish model is of interest where members pool individual welfare entitlements and employ paid support and personnel thus demonstrating a greater control over their circumstances. This consumer co-op model is an interesting development in active welfare. An option for future UK welfare is that clients are given resources to buy their own provision and this could encourage users to pool resources through mutuals to provide their own care.

Johnson Birchall (2000) cites evidence of the positive benefits of health co-operatives in Japan which support greater client 'ownership' and involvement in creating positive health outcomes. Indeed, there is evidence internationally of an increasing number of co-operatives in health and in social services. Co-ops have been established in rural Finland providing children's day-care, health and social services to the elderly in response to cuts in services by municipalities whilst in Sweden, some children's day-care, schools and nursing homes are being formed as new co-ops. The UN published a global survey of health and social care co-ops pointing to their increasing numbers and potential for further expansion (UN 1997). Hargreaves (1999) argues that we could go further than GP co-operatives in the UK and consider the formation of community health co-operatives where the interests of both patients and doctors are represented. Browne (2000) argues that through Health and Care Community Co-operatives which build on an existing example of a Healthy Village in Brockenhurst and Sway, New Forest: 'The public will help decide on the health and care packages needed using the community resources which are additional to those provided by the statutory Health and Social service providers.'

Another social enterprise model is exemplified by the Health Partnership set out at the beginning of this report. It shows how complementary services can be developed which are self-financing, provide a new kind of service, and involve the community and other partners in considering the most appropriate range of local service provision.

In current discussions over the future of the NHS, the increasing attention to preventive health, and the development of primary care groups, there will need to be an assessment of the diversity of potential service providers. There is also the possibility of subjecting the managerial incentive structures of hospital trusts to scrutiny and learning from other social enterprise models.

Social enterprises can also have other more indirect impacts on local health outcomes through their delivery of, say, home energy saving, quality food, affordable leisure facilities or through social firms which can create positive health benefits. Such possibilities have been recognised, for example, in the development of the Health Strategy for London. Social Enterprise London articulates the key arguments: 'The health role and potential of social enterprise development linked to regeneration and employment creation should be fully understood. Positive health outcomes can be identified in connection with public health/preventive medicine issues and for the provision of certain kinds of health-related services' (SEL 2000a).

Other examples

Housing is an area where the benefits of user involvement have been recognised. For example, a study of social housing by Price Waterhouse on behalf of the then Department of the Environment, showed how both housing co-operatives and tenant management models compare favourably with the best of mainstream social housing providers in terms of quality and cost-effectiveness (DoE 1995). There was also evidence of wider benefits accruing to individuals and the community such as the acquisition of new skills from this active involvement. Both co-operative and tenant management achieved this added-value, showing that alternative organisational models are able to involve key stakeholders in a variety of ways. This reflects Leadbeater and Christie's (1999) point that we are really talking about the benefits of the mutual 'principle' rather than just co-operative ownership *per se*.

Greenwich Leisure, described at the beginning of the report, is an example of an effective alternative to privatisation which has involved both employee and community ownership and involvement together with partnership working with local government.

The UK Co-operative Council has argued the broad benefits of employee-ownership in the externalisation of public sector services including:

- Belief that employees with day-to-day contact with the client group are more likely to retain a stronger commitment to the ethos of public service
- Retention of the same staff team removes worries about

redundancies, union fears, and a high level of continuity with the nature and quality of the service

- Higher priority to maintaining levels and standard of employment
- Less likelihood of the profit motive being paramount
- Benefits from employee ownership in terms of more committed and motivated staff

Another example of a co-operative model of the externalisation of service provision is presented below.

North East Music Co-operative was a result of Newcastle Local Education Authority being forced to make peripatetic music teachers redundant due to cuts in funding. The teachers formed a secondary co-op with support from the City Council and the Musicians Union with the result that rather than job and service loss there is now more music teaching than before. They have managed this by introducing a wider range of teaching options, staggered payment plans and a number of additional services including a discount scheme with local music shops.

Bulky Bob's is an example of a new approach to service delivery – one which encourages local authorities to take a new look at how their services are structured and what social aims they are fulfilling. This example shows how service delivery can be tied to other policy goals such as regeneration and job creation. Black (2001) argues that this approach could be used to encourage social enterprise development. It would also compel the private sector to become more responsible to the communities from which they extract their profits. It therefore presents a challenge to Best Value to address how their service delivery can combine different social goals through joined-up thinking and delivery.

Bulky Bob's – is part of the Furniture Resource Group and is a partnership with Liverpool City Council. It has been awarded a seven-year contract to carry out all bulky household waste collections. Prior to this, all furniture collected was just dumped thus losing a valuable resource which could be recycled. Unwanted items of furniture are picked up and then sorted. Those in reasonable condition are sold at low cost to people in need. Furniture in need of restoring is passed to the FRC or to a mental health charity, Dove Designs, and white goods go to another social enterprise, Create. 'With Bulky Bob's we are showing how a new social business can genuinely join things up. Residents get a much improved and reliable collection service. Unemployed people are given jobs in collecting, sorting recycling and selling' (Mike Storey, Council leader quoted in FRC (2000)).

Issues of comparative advantage

A key issue for local government is whether there are demonstrable differences in outcomes between different service providers. There have been a variety of comparative advantages proposed for the third sector in general. Some of the presumed differences between private sector companies and the third sector may be either non-existent, dependent on context or highly sensitive to the criteria used for comparison. There is no a priori reason why, for example, third sector organisations should be any less efficient or professional than business. Equally, private sector models may incorporate high sensitivity to client need and user involvement. However, this does not mean that we can avoid these questions. Perceptions of differences can affect the behaviour of users, government officials writing tenders or considering bids, or the attitudes of other partners in cross-sectoral arrangements. And actual differences may be critically important for good policy-making, for example, in considering whether the 'market' of providers within a locality will be able to meet the spectrum of local needs.

However, it is clear that experience of involvement in certain niches and activities equip different third sector organisations with specific skill sets and expertise which are not available elsewhere. There are also a variety of more specific comparative advantages that have been proposed for the third sector and which are of particular importance when discussing their involvement in service delivery.

- No owners

Billis and Glennerster (1998) argue, in relation to welfare services, that it is precisely the lack of ownership which gives the voluntary sector its comparative advantage: its 'distinctive and ambiguous structures' enable it to overcome both government failure and a lack of business interest. This ambiguity arises from the overlapping role of multiple stakeholders such as, staff, volunteers or users. In the public or business sectors, there are clear demarcations between staff, owners and clients whereas in many third sector bodies these roles are harder to decipher – staff may be on governing bodies and users may be staff and involved in governance. Therefore there is 'the potential for greater motivation, sensitivity to, and knowledge about client need.' It is the very fact that no one stakeholder can take priority over others that predisposes such organisations to be mission-led rather than profit-oriented or concentrated primarily with the needs of one particular stakeholder group.

- Employee or consumer ownership

Some of the examples above set out models where a variety of benefits attributed to stakeholder ownership including employee satisfaction, greater commitment and enhanced working conditions and the impact on service delivery and outcomes of increased client involvement. As noted before, we have to be careful about the distinction between ownership as defined by control and by the rights to residual earnings. Many co-operatives that are pursuing public interest goals may well be set up and can also be similar to trust models or companies limited by guarantee involving multiple stakeholder governance. Ownership and mutuality in the broadest sense can therefore be found in a range of structures.

- Engagement of disadvantaged groups

A key selling point of parts of the third sector has been its understanding and advocacy of the needs of the disadvantaged, particularly since they often operate in areas which may not be catered for by business or government. However, within the context of the New Deal, for example, some businesses argue that they can be just as responsive to user needs even for the most disadvantaged groups. Other commentators have argued that the third sector still has both the experience and commitment to deal with those 'with the furthest to go'. The private sector, on the other hand, may have more of a tendency to concentrate on verifiable outcomes such as uptake of jobs rather than devoting resources to 'difficult' cases. There is a need for clear testing and evidence of these claims.

- Innovation

The third sector has often been praised for its innovative capacity. Whilst the sector has no monopoly on innovation, it is more motivated to create new ideas and initiatives which are responsive to social needs, and which tend not to be catered for by the public or business sectors. From a review of European third sector organisations, Campbell (1999) concluded that: 'Their flexibility combined with their knowledge of local needs, enables them to test new ideas, methods, products and forms of service delivery.' However, lack of resources and vulnerability from fragmented and short-term funding regimes may mean that much third sector effort is concentrated on delivering what is possible rather than being able to devise and adopt innovative strategies.

These points illustrate that attention needs to be paid to looking at the capacity of the third sector to be innovative (both in terms of skills and sustainable financing) and the potential of partnerships to help encourage more co-operation and networking to spread ideas and best practice. Part of this solution will be the encouragement of more enterprising ways of working and the creation of a variety of social enterprise models that are able to free organisations from grant-dependency and allow the autonomy to be able to be creative and innovative.

- Trust

A key argument here is related to the notion of contract failure. Hansmann (1996) and others have pointed to the difficulty of evaluating outcomes in markets such as health and welfare where key elements of care relate to the quality of the interaction between users and providers – something which is impossible to specify within contracts. Normal tendering procedures make it hard to distinguish between good and bad suppliers. It is argued that, in these situations, third sector organisations are more likely to be trusted to fulfil the spirit of the contract in spirit than are for-profit companies since their primary aims are social and more likely to be aligned with those of service users. This will become even more apparent if the stakeholders themselves deliver the service, for example, parent controlled child-care.

But whilst the public sector might inherently trust the third sector more than business, changes in perceptions of trust by purchasers (and users) may alter with experience. The natural bias of most local authority purchasers towards health and welfare service providers was towards the voluntary sector but now with experience they have found that many private sector providers, particularly those which are small family-run, ex local authority employees or professional care workers can be just as focused on maximising the well-being of their clients (Kendall 2000). Perri 6 (1998), however, argues that in areas where professionals deliver services, professional ethics can override sectoral differences.

However, a different view is that trust is actually the unique selling point of the third sector not only through their inherent nature but also through their ability to use trust as a way to create new markets. This point was discussed in the section above in the arguments by Campbell (1999) that the social economy is able to exploit niche markets that rely on client responsiveness and trust. There is however a need to further explore user and public sector attitudes to third sector providers in relation to this trust dimension and the reasons underpinning these perceptions particularly since they affect user and purchaser choices in service providers.

Market-making

In recognition of the potential role for social enterprises in creating diverse and responsive markets for service provision and in supporting local regeneration and creating markets for services that do not exist, but which would have strong social and environmental benefits, some local authorities are playing a very active role in supporting the creation of social enterprises.

Nottingham City Council are currently supporting three social enterprises including The Homecare Co-operative which employs 36 people. Other businesses being supported at pre-formation stage include:

- Bulwell Hall Estate Community Garden – producing organic produce for local markets
- Nottingham Computer Training and Recycling Company – recycling computers, domestic appliances and TV whilst providing technical training and the social provision of refurbished goods

The rationale for this support can be exemplified particularly by care services. The Council believe that the current market for care is immature and that there is a danger of dominance by large corporates. They feel that a more diverse market would enable a broader spectrum of potential providers as well as different models of service delivery and the potential for experimenting with new multi-stakeholder models which can promote community participation in the delivery of services and greater empowerment. The social economy and social enterprises are clearly part of this solution and their aim was to support the development of a variety of social enterprises, particularly those based on a co-operative ethos, which they felt incorporated added-value in client involvement and empowerment as well as a good and supportive environment for employees.

They are also experimenting with support for a range of social enterprises that can support a variety of regeneration and community needs. For example:

- *Supporting empowerment and independence in elderly care* – through the development of social enterprises that can create models of elderly care which involve users and help to ensure that they do not develop dependency.

- *Trusted brokers* – developing social enterprises which can help to create markets (and increase employment), in this case, listing accredited gardeners and odd jobbers and matching with older people who can often feel particularly uncomfortable in securing such services (Vasilevski 2000).

Nottingham City Council felt that the current immaturity of markets, both for service delivery and in more personal local services, requires intervention if providers are to match needs, particularly in hard-to-serve areas. However, there are concerns that local authority financial regulations, Best Value requirements and EU procurement legislation do not always work together effectively to support the innovative procurement of services – particularly those that support the use of local providers who can also address other policy issues such as regeneration and social inclusion.

Could this proactive approach become more widespread? There are a host of examples around the country of local authority support for social enterprises. Ealing Council, for example, was the first local authority to create the position of a Social Firm Development Officer to initially develop and support social firms in conjunction with the voluntary sector. When the high quality service delivery produced was recognised, Ealing Council realised that local service provision and employment creation could be fused. Their Direct Payments Scheme is run by a social firm – a dedicated community support services for Ealing residents receiving direct payments for care whilst also supporting payroll support to those people who wish to employ their care providers (Social Firms UK 2000).

However, there are a variety of difficulties which need to be overcome. A key area of concern for many local authorities arises from the poor image of social enterprises following the history of the community enterprise movement in the 1980s. Such businesses were often fragile and unsustainable, relying on public subsidy and generating few jobs and weak markets. The lessons have been learned, particularly in relation to creating viable markets, and there is a much greater recognition of the need to provide managerial advice and support in order to create appropriate and viable markets which will allow enterprises to become self-sustaining (NEF 2000).

Commentators have argued that public sector involvement removes the elements of risk-taking and competition which characterise enterprise and therefore the creation of self-sustaining viable businesses. There needs to be a great deal of attention paid to how the public sector works with and supports social enterprises to ensure that their support does not lead to dependency and unsustainability. The chief difficulties relate to the cushioning of grant support and lack of sufficient community 'ownership', in other words that they were not set up with the commitment and involvement of local beneficiaries (NEF 2000). This latter issue has been felt to be particularly the case with some local-authority initiated credit unions (Hargreaves 1999).

Other difficulties relate to the different perception of social enterprises by local authorities. This is exemplified by a report into community enterprises and local authority support (LGMB 1998). The authors noted that 22 authorities saw community enterprise as high priority, 32 as medium and 22 as low. Those that gave a low priority 'attributed this to lack of knowledge or experience of community enterprises, the absence of clear anti-poverty strategies, competing priorities for funding, and significantly, the belief that community enterprises did not provide a solution to local needs.' There was also concern about the difficulties of accounting for their intangible benefits such as enhancing community involvement and increasing empowerment, and the difficulties of identifying real community interest. 'In the face of indecision, it was tempting for local authorities to adopt "top down" approaches and create community enterprises for communities but it was felt that these were unsuccessful because they required ongoing support.' They also felt that did not have appropriate outreach to establish a community view of local needs and could not justify the costs of creating specific community enterprise officers. Some local authorities identified a lack of local entrepreneurial spirit to take this agenda forward, their low profile and the lack of role models 'partly attributable to the large number of organisations involved in promoting the different types of community businesses, the lack of communication between them and the undeveloped links between the community business and commercial business sectors'.

Recommendations proposed by that report included:

- More literature on how community enterprises work
- Methods of establishing market gaps which community enterprises could fill – and linking their development to public sector initiatives such as Welfare to Work or Childcare schemes

- Creating more links between community and mainstream businesses
- Encouraging more networking and the spread of best practice
- A relaxation of benefits to enable more participation in community enterprise activity
- Need for community champions

There is also a reasonable amount of anecdote which suggests that some local authorities have been less than supportive of social enterprises because they see them as being threats to their own services and activities. There is also some concern that empowered communities can place unrealisable demands on local authorities (LGMB 1998). There are also indications that local unions have also been concerned about externalisation of services to social enterprises because of concern about pay and conditions within the new arrangements.

Ways to raise awareness and increase understanding by local government

Proposals which would help foster this understanding include:

- Ensuring that all government procurement officials understand the diversity of potential providers and that they have access to best practice from all sectors.
- Creating adequate data sources that distinguish, for example, between types of service providers or the participation of different sectors in strategic partnerships in order to raise awareness of the level of third sector involvement and to assess trends.
- The need for strong evaluative techniques able to measure the additionality of different providers.
- The Cabinet Office undertaking research to assess the diversity of service providers and their ability to meet policy goals; this could include learning from overseas on models of third sector delivery. The ‘social economy’ is far more integrated within society and within government thinking in other European countries, for

example, Italy and Sweden, where there is strong evidence of the effectiveness of alternative structures in helping to deliver policy goals.

- Setting up pilots of innovative third sector initiatives, particularly those which involve user-participation or multi-stakeholder governance.

Best value

Whilst Best Value should in theory lead to greater engagement with third sector partners, there are still a number of issues to work through:

- The ability of potential third sector providers to access the tendering process (whether because of lack of skills or the cost implications). This may involve assessing the advice and support available within an area for the third sector (whether through intermediary bodies or through the LA itself) and ensuring that it is able to provide this expertise and perhaps support the costs of the tender process.
- Encouraging public sector procurers to go beyond the current Best Value approach in comparing the range of potential service providers available in their localities with current modes of provision.

Without a more proactive approach, it is likely that the third sector and social enterprises, whilst potentially offering innovative models of provision, may struggle to compete in a situation where large businesses are able, through their size, to offer cheaper if more standardised services.

This suggests the need for:

- An investigation of the extent to which Best Value, finance regulations and EU procurement rules enable or impede innovative forms of procurement and market-making which support the creation of innovative third sector and social enterprise solutions
- Research into the cases where local government has taken on a market-making role, an assessment of the possibilities and difficulties of doing so, and the dissemination of best practice models

Creating a broad enterprise ecology in local areas

Several local and regional strategies illustrate some other crucial issues which impact on local authorities and on creating appropriate frameworks for supporting the development of a range of social enterprises within local economies.

The West Midlands Social Economy Partnership has set up a bid for creating strategies to support the social economy and social enterprises. They have built on the recognition by many local authorities in the area that social enterprises are helping to create jobs and businesses in deprived areas or improve health, often through Health Action Zones. They are going to identify gaps for social enterprise support, and how social enterprises contribute to wider social aims such as increasing educational attainment, local service provision and community empowerment and crime and safety.

However they found several difficulties which needed to be overcome:

- There is no body of shared knowledge or understanding on what is the best way to establish and develop social enterprises and no model documents that can easily be accessed by communities
- There is no pathway identified that would enable social enterprises to move from public subsidy to being independent commercially led businesses
- There is no way of co-ordinating or sharing existing knowledge, research and evaluation results across the region
- There is no defined mechanism for evaluating the impact of social enterprises in the West Midlands.

The importance of understanding the critical role of the government in developing the social enterprise sector is reflected in a London strategy aimed at creating the appropriate infrastructure for the development of the social economy.

The Social Economy Framework for London (SEFfL 2000) was the result of research carried out by a range of partners including Greater London Enterprise, London Borough Grants, SEL and the Charities Aid Foundation. Its goals are to maximise the contribution of the social economy as a whole into the development of the London economy, create opportunities for all sections of society to contribute to creating new employment opportunities and sustainable economic development strategies through building on existing networks between business, voluntary groups and government. Within this framework, social enterprises as seen as niche marketeers, commercial businesses trading in a marketplace and with innovative legal and management structures designed to achieve competitive advantage, or pursue wider social/environmental objectives or lifestyles.

The research for the SEFfL (2000) identified two key problems relating to the role of government in supporting the social economy:

- Restrictions on use of public funds – public funders tend to be reluctant or are unable to fund schemes or projects that have an element of risk attached to them or which support commercial activities. This results from the conditions and restrictions accompanying the provision of funds from public sources, particularly, central government. For example the National Lottery is unable to fund social enterprises because of the overtly 'money making' ethos of such organisations.
- Restrictions applying to the use of public funds to acquire assets.

They concluded that the fear factor over the misuse of public funds is holding back innovation.

On the issue of assets, the Development Trust Association particularly has argued (for example, DTA 1999) that community-owned assets have a key role to play in enabling a secure, sustained and effective role for the community in regeneration. Assets may be land, buildings or capital endowments. Asset-based development can include leisure, workspace, offices and housing. They can enable communities to create local development strategies and utilise the income streams arising from ownership of the assets and allowing the ability to raise finance for a range of social, economic and environmental activities on the asset collateral. A key solution would be to encourage more local authorities to create locally owned or partnership-owned assets. However, local authorities often argue that they are hindered by central government finance rules that restrict disposal of assets at less than market value and may be concerned about loss of control.

In Scotland, these restrictions are less onerous and examples of innovative asset use exist. For example, EDI (Economic Development and Investment) is an example of an organisation that spans the public/private sector divide and which was set up by Edinburgh City

Council in order to add value to property and to use some of the profits for social and community benefit, for example, creating community trusts from land assets which can support initiatives such as a community-based call centre which provides local employment and training (Ritchie 2000).

There is the potential for creating further innovative forms of hybrid ownership and governance with local government which combine the best of public sector values, enterprise, and community involvement (for example, Ainger 2000).

This approach however strikes at the heart of current discussions and challenges for local authorities. Organisations such as development trusts are examples of enterprises which tackle different government agendas simultaneously and could be part of strategies aimed at creating real local partnerships which actively involve communities in devising their own policies and programmes. The DTA warn though that this new approach requires ‘something more messy, more opportunistic, a continuous process of relationships constantly being renegotiated, where risk and failure are accepted as inevitable, and where success is rewarded.’

If there is to be a reality of this more pluralist and inclusive agenda for local government, a range of instruments will need to be developed in order to enable greater understanding of the potential for social enterprises, dissemination of best practice, and ways of identifying needs which could be filled in this way. The approach will entail much more risk-taking by government, and a different approach to support which is more about enabling self-sustaining enterprises and ongoing sources of revenue rather than time-limited public funding.

It also clearly exemplifies the difficulties underlying the vision of the local authority as community leader and enabler. By shifting and extending control over future local policy and implementation to other local stakeholders then the ability of local government to have ‘ownership’ of strategies or to claim the benefit for successes is reduced. But equally there are legitimate concerns about how this future scenario will affect issues such as accountability for the use of public money and for activities which have a public interest dimension.

Whilst social enterprises do remove certain elements of direct accountability they can create greater ‘horizontal’ accountability through the range of partners involved in governance and appropriate evaluation. It could also be argued that increased involvement by the local community further enhances transparency and democracy. However, there could well be differences of opinion between different local stakeholders and particularly with elected representatives.

Postscript

To make a reality of the government's mantra that 'what matters is what works' partly requires dynamic social enterprises as well as a rigorous understanding of when and where different models are best. Looking back at Figure 1.1, we should be able to think of other examples, existing and potential, that could fit into that social enterprise space. There is room for a lot more experimentation to break down ideologies and barriers between sectors and create new innovative models. At the minimum it adds diversity and choice, in the extreme it can change the nature of markets and enhance the ability to create social and environmental change.

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