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## SOCIAL ENTERPRISES IN CONTEXT – THE STORY SO FAR

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### KEY THEMES

- To understand the discourse regarding the definition of social enterprise (SE).
- The different organizational and legal forms of SEs.
- The scale and scope of SEs.
- Management challenges for SEs.

### DEFINITIONS OF SOCIAL ENTERPRISE

Despite the importance of the social economy and SEs to the UK and Europe, there is significant discourse over both the definition and identification of such organizations (Adams et al., 2003). Currently, SEs are defined by organizational type, legal structure and value characteristics. A number of authors have argued that different legal structures and organizational forms (see Forms of SEs later in this chapter) make any generalizations regarding SEs challenging (Dees, 1998; Westall, 2001). However, the lack of a universal definition is argued by some to lead to a slippage of key terms and also be a hindrance to research in the sector, particularly when mapping the SE sector (Haugh, 2005; Nicholls, 2006; Shaw and Carter, 2007). Jones et al. (2007) argue that definitions are important to both differentiate SEs from other organizations in the private and public sectors and also highlight the differences between specific models of SEs.

According to Peattie and Morley (2008) the problems with defining SEs is linked to a tendency by certain authors to focus on particular characteristics and these cannot be applied across the sector. For example, SEs are often described as not generating profits for distribution to shareholders when it is clear that a number of SEs, such as Traidcraft, and other SEs set up as community interest companies (CICs), are intended

to share an element of profit with their shareholders. Also, SEs are often described as being small and democratic. Austin et al. (2005) argue there is nothing that prevents SEs from being large and there is an emerging concept of 'corporate social entrepreneurship'. Some authors also approach definitions from a normative position, arguing that SEs should be non-profitmaking or democratic.

Peattie and Morley (2008) argue that SEs are distinguished from other organizations by the simultaneous possession of two attributes.

- SEs trade in goods and/or services in a market (so they are an 'enterprise' and not simply a voluntary or community organization).
- The primacy of social aims. The primary purpose of SEs lies outside the commercial outcomes related to their trading of goods and/or services in a market (beyond the generation of profit or the growth of the enterprise itself). That is what makes them 'social'.

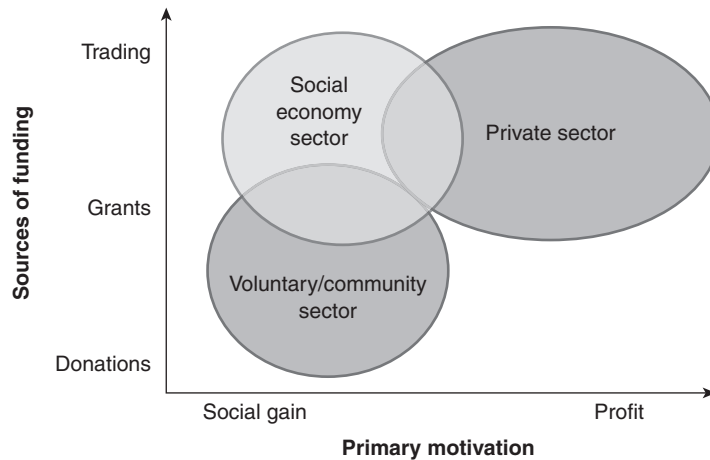
Both attributes reflect the delineations in Pearce's model (as shown in Figure 1.2 in chapter 1) between SEs and the private sector.

The most widely used definition in the UK is (DTI, 2002):

**A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community rather than being driven by the need to maximize profit for shareholders and owners.**

This definition from the DTI highlights the importance of both the not for private profit and use of the surplus elements, which are what differentiate SEs from other organizations in the social economy. The DTI (2002) proposes that 50 per cent of the income from the trading of goods and services must be targeted at operationalizing the SEs' social and environmental missions through a business model of competitively trading for a social (or environmental) purpose. The DTI (2002) also describes the locus of SEs (see Figure 2.1), illustrating third sector organizations' funding orientation regarding trading. According to Westall and Chalkley (2007) this DTI definition prioritizes both profit use and financial self-reliance and supports calls by government to encourage the wider third sector to move towards greater financial self-sufficiency. This is set against a background of reduced grant funding for voluntary/community-based organizations.

The locus of SEs is particularly useful for third-sector organizations if you consider that, while some SEs start off as businesses, such as Divine Chocolate (formerly Day Chocolate), some are in transition, having begun as voluntary and community sector organizations. For example, the Collins and Glossop (2006) reported that up to 35 per cent of general registered charity income is derived from trading activities. Jones et al. (2007) propose that a distinction is now made in the UK between established SEs (which receive 50 per cent plus income from trade) and emerging SEs (which receive less than 50 per cent, or 25 to 49 per cent, income from trade). This could suggest that the two attributes suggested by Peattie and Morley (2008) do not take into account charities or voluntary organizations that are in transition, moving towards an enterprise orientation.



**Figure 2.1** The locus of the social economy sector

Ed Miliband (2007) also proposes that SEs put ethics at the centre of their businesses, not just as a bolt-on. He argues for SEs competing on the basis of ethical values, particularly in consumer markets. He also argues that, by competing on these values, standards in the private sector will be raised and this will also transform public services.

This ethical dimension is also highlighted by Nicholls and Opal (2004), who propose that the core product of fair trade SEs is the ethical element. Fair trade, according to Nicholls and Opal (2004), is, in a Kantian analysis, deontological. This approach to supply chain relationships establishes the need to treat others fairly, as one would wish to be treated. Deontological ethics (ethics of duty) prioritize personal moral duty to others and are the foundation for the ethics of rights and justice (Crane and Matten, 2004). Authors in the neoclassical tradition, however, identify all economic agents as being egoistic, ignoring deontological considerations (Beauchamp and Bowie, 1988). Pearce (2003) also explores a values-based approach as underpinning the SE sector, including values, cooperation, empowerment by investing power in people and communities, inclusivity, good work (active citizenship), sustainability, democracy and being people-centered (embracing people, culture, environment).

There are similarities between the DTI's definition and that of the UK's Social Enterprise Coalition (2003), which proposes that an SE is 'an organization that trades in the market for a social purpose and who shares three common characteristics'

- *Enterprise orientation* They are directly engaged in providing goods or services to a market.
- *Social aims* They have explicit social aims, such as job creation, training or the provision of local services. Their ethical values may include a commitment to building skills in local communities. Their profits are principally reinvested to achieve their social objectives. Increasingly, SEs measure their social impact.
- *Social ownership* They are autonomous organizations, the governance and ownership structures of which are normally based on participation by stakeholder

groups (for example, employees, users, clients, local community groups and social investors) or trustees or directors who control the enterprise on behalf of a wider group of stakeholders. They are accountable to their stakeholders and the wider community for their social, environmental and economic impact. Profits can be distributed as profit sharing to stakeholders or used for the benefit of the community.

This definition again links social aims with an enterprise orientation and places an emphasis on social ownership. Westall (2001) argues that governments need to be clear about what SEs are, but does propose that SE is still a developing term and its looseness could actually be an advantage. She explains (westall, 2001: 1):

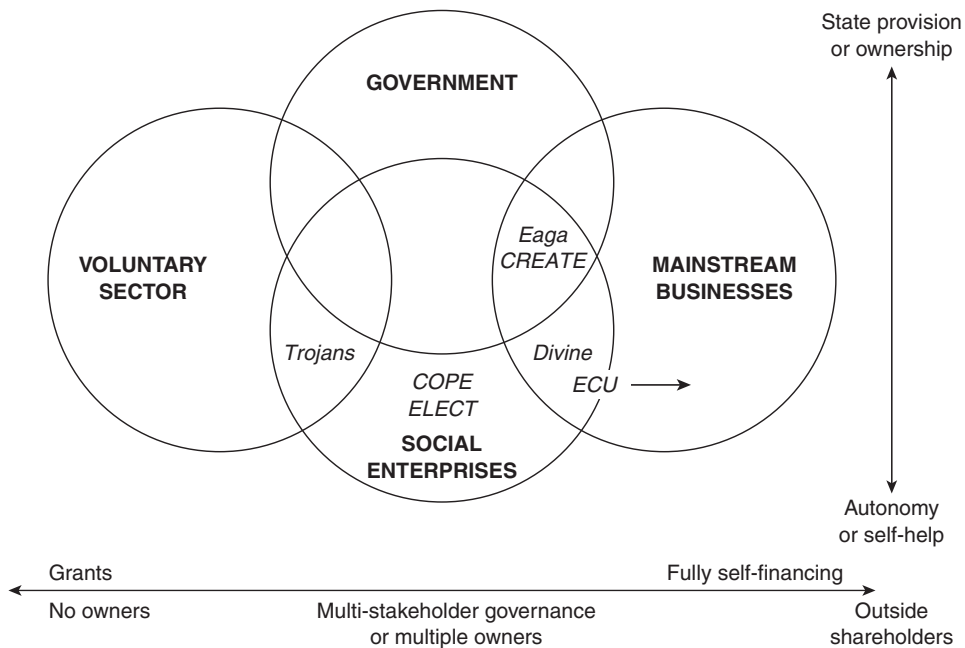
**SE is a loose umbrella term which raises the awareness of a variety of organizations that highlight alternative ways to do business that directly incorporate social and environmental concerns. This gives the possibility of creating revenue streams that enable an organization to create sustainable social change without being reliant on time-limited funding or charitable donation.**

According to Westall (2001), such a definition can therefore raise the awareness of diversity, create new initiatives and new innovative models. Birch and Whittam (2006) appear to support this position by proposing that a market emphasis could encourage the development of new forms of organization.

Westall (2001) herself proposed the 'spaces for SE' model (see Figure 2.2) to illustrate where new innovations could be created. The axes show relative independence from government (top to bottom) and, from left to right, a spectrum from dependence on grants and donations to being fully self-financing and from no owners or multi-stakeholder governance to pure outside shareholding. The overlaps of the sectors illustrate the range of models possible incorporating different stakeholder involvement or ownership and also the lack of clear distinctions between sectors. The SEs featured in Exhibit 2.2 have been positioned in Figure 2.2 for the purposes of discussion.

Westall (2001) also argues that, while many SEs aim to be self-sufficient, they may also make use of a variety of income streams, including donations, public money and in kind support. Pearce (2003) also argues for mixed income streams. According to Pearce (2003), the primary purpose of a SE is social/environmental, the commercial activity being the means of achieving this primary purpose. Pearce (2003) and Drayton (2005) see SEs as being part of a social movement providing a radical model. Fair trade SEs, such as Divine Chocolate and Café direct, have their roots in the solidarity movements of the 1970s and 1980s (Lowe and Davenport, 2005).

In contrast to the definition used in the UK, the SE Alliance in the USA defines an SE as, 'An organization or venture that advances its social mission through entrepreneurial earned income strategies.' This definition appears to focus on the enterprise with a social mission. The US approach appears to see SEs as forming a subset of social entrepreneurship, focusing in the main on earned income as a method to achieve social aims. Many European definitions of SEs view participation as being of equal importance to trading and emphasize their role in developing a more diverse



**Figure 2.2 Spaces for social enterprise model (adapted from westall, 2001: 9)**

and pluralistic democracy. They also highlight their role in a social economy as pointing to another way of organizing the market (Westall and Chalkley, 2007).

Kerlin (2006) summarizes some of the key differences between the American and EU approach to SEs and argues that the key emphasis in the US is on generating revenue while the main emphasis in Europe is on bringing about social benefits.

The European Research Network's (EMES) definition of SEs proposes four criteria that distinguish between both economic and social indicators:

- directly involved in the production of goods or services to people on a continuous basis, the productive activity representing one of the key reasons for the existence of SEs;
- created by a group of people on the basis of an autonomous project and governed by these people – they are not managed by public authorities or other organizations (federations, for-profit private firms and so on);
- a significant level of economic risk;
- a minimum amount of paid work.

EMES also propose five criteria to capture the social dimensions of SEs:

- an explicit aim to benefit the community or a specific group of people;
- an initiative launched by a group of citizens who share a well-defined need or aim – this collective dimension must be maintained over time and the

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importance of leadership, often embodied in an individual or small group of leaders, must not be neglected;

- decisionmaking power is not based on capital ownership, but, rather, generally the principle of 'one member, one vote' is followed.

Other international perspectives include that of the Organisation for Economic Co-operation and Development (OECD), which provides a broader definition of SEs (OECD, 2006):

**Organizations with different legal forms in different countries, which are organized in an entrepreneurial spirit to pursue both social and economic goals. Social goals prioritize solutions to unemployment, social cohesion and social exclusion. These organizations can be urban or rural based.**

The OECD (2006) has identified a list of key economic and social characteristics that define SEs in all the different countries in which they exist:

- directly engaged in the provision of goods or services;
- voluntarily created by citizens and managed by groups of citizens;
- stakeholders have the right to participate in them;
- involve a significant level of economic risk;
- have a minimum number of paid employees;
- the decisionmaking power is shared by stakeholders and is not based on capital ownership;
- participatory in nature;
- avoid profit maximization behaviour and involve the limited distribution of profits;
- have as an explicit aim to benefit a specific group of people.

In Central and Eastern Europe, there are fewer SEs (OECD, 2006) and political and historical challenges remain (see Exhibits 1.2 and 1.3). However, definitions of what SEs are have been stated in Slovenia (see Exhibit 2.1) and elsewhere in the region.

#### **Exhibit 2.1 Definition of SEs in Slovenia (Bunc et al., 2007)**

SEs in Slovenia are regarded as companies or organizations that have been set up with the aim of promoting social well-being and fulfil the following criteria:

- *economic*:
  - they are manufacturers or service-based;
  - they are autonomous (not state owned);

- market-orientated;
- have a defined share of voluntary work;
- *social:*
  - established as a result of civilians' initiatives;
  - decisionmaking is not related to share of capital (one stakeholder, one voice);
  - the active participation of all stakeholders is ensured;
  - work to benefit their members, targeted beneficiaries or the community;
  - the major share of the profits is their activities reinvested back into or the wider community (the primary goal is not maximizing profits for their owners).

Like elsewhere, therefore, any SE in Slovenia should combine its market-orientated business activities with its social aims, motives and needs. It should seek to succeed, as any other business entity (private profit and public profit-orientated) would, in creating and establishing its market share and making a profit. However, it should also emphasize the long-term benefits for its employees, its customers and the members of its living-working community.

The one common characteristic in all of these international definitions is the drive towards creating an enterprise culture to achieve social aims. This focus on generating an income from trading activities differentiates SEs from companies the broader social economy. Defourney and Nyssens (2006) agree and argue that SEs apply the methods of the private sector to achieving the types of primary social aims more normally associated with the public and voluntary sectors. This makes SEs a form of organizational hybrid (see also Dees (1998) on the SE hybrid spectrum).

A number of authors have identified sustainability as being key in their respective definitions of SEs (Birch and Whittam, 2006; Pearce, 2003). The UK Government's Sustainable Development Unit lists sustainable communities as being one of its four key aims.

**Sustainable communities are places where people want to live and work, now and in the future. From global to local we aim to improve the lives of people in deprived communities and socially excluded groups who experience poor quality of life, including poor local environmental quality and poor access to services such as health-care, education and transport ([www.sustainable-development.gov.uk/key/local-global.htm](http://www.sustainable-development.gov.uk/key/local-global.htm)).**

Birch and Whittam (2006) discuss sustainable development in the social enterprise sector in relation to the production and promotion of social capital. They argue that SEs can play a crucial role in developing social capital by building new relationships and networks. Despite SEs focusing on economic sustainability, recent work has emphasized the double or triple bottom line, arguing for the debate regarding the sustainability of SEs to be widened to include social and environmental sustainability. Doherty and Thompson (2006) discuss the double and triple bottom line in relation to SEs.

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It is interesting to note instances of leading SEs focusing on the triple bottom line as a key part of their business strategy. The ECT Group, for example, one of the UK's famous SEs, states, 'our commitment to the triple bottom line is the foundation of ECT's business model. It relates directly to sustainability and we are an example of a fully developed triple bottom line company committed to social and environmental outcomes as well as economic results' (ECT, 2007).

Reid and Griffith (2006) have also suggested the potential SEs have to tackle the quadruple bottom line—the blending of economic, social, ecological and community concerns. Related to this discussion is the question should we be looking at both financial and economic outcomes as two distinct areas?

Despite the discourse surrounding definitions, the need for organizations that have primarily a social mission, achieved by reinvesting profits derived from trading, is clear. It is this profit, termed surplus, and the reinvestment of this surplus in the social mission that clearly differentiates SEs from other companies (Bull 2006).

The kind of trading engaged in should not be limited to the sale of goods and services. The work of Pearce (2003) and Westall (2001) is useful in this respect. We also need to take account of the international variations in definitions and types of SEs. In this respect, the summary provided by the OECD is useful. However, it does not reflect all types of SEs, such as NGOs that trade—ACP in Nepal (see Exhibit 1.8), for example.

Pearce proposes that 'we need an international definition that is more encompassing of different SE forms' (interview: with Pearce, 2007). However, the key aspect on which there *is* agreement is that the primary focus of SEs is on a social aim, which means that, instead of customers and shareholders being prioritized, key stakeholders for SEs include a range of disadvantaged groups. These include;

- producers who have not been fairly paid for their products, in the case of fair trade organizations such as Divine Chocolate (see Exhibit 2.2 later in this chapter);
- the long-term unemployed, in the case of intermediate labour market companies such as CREATE (see Exhibit 2.2);
- those excluded by the established financial services providers in the case of credit unions such as the Enterprise Credit Union (see Exhibit 2.2);
- marginalized women, in the case of the ACP (see Exhibit 1.8);
- the environment, in the case of ECT (see Exhibit 2.3).

Building successful stakeholder relationships with the targeted disadvantaged groups is key to the success of SEs – the effective ones establishing high degrees of trust. Many SEs have been created to deliver products and services into sectors including health-care, the arts and culture, employment, housing, social care, education and training, environmental and recycling services, financial services, food and beverage manufacturing (for example, fair trade models), regeneration, provision of leisure services, retail, transport and agriculture.

Although this is not a book on social entrepreneurship, it is important to discuss the distinction between SEs and social entrepreneurship, so we shall turn to this next.



## SOCIAL ENTREPRENEURSHIP

In recent years, a number of excellent books have been written in this important area (see Dees, 2001; Nicholls, 2006). A number of authors have described social entrepreneurs as heroic, bold individuals or groups of people who provide innovative solutions that create and sustain social value (Dees, 2001; Vega and Kidwell, 2007). While there are many examples of this, Spear (2006) also argues that success in SEs often comes from teams and groups who use distributed entrepreneurship and circles of entrepreneurial activity. This debate does highlight the research tradition paradox mentioned by Peattie and Morley (2008), who contrast social entrepreneurship and its strong emphasis on the heroic individual with the literature on the cooperative movement, which emphasizes collectivism.

The literature on social entrepreneurship also highlights international differences. The term ‘social entrepreneur’ and the heroic individual perspective has, until recently, been particularly emphasized by American organizations, such as Ashoka. In contrast, the European literature has discussed the collective nature of the social enterprise more (Defourny and Nyssens, 2006).

According to Vega and Kidwell (2007), social entrepreneurs develop solutions to social problems that have not previously been applied by the private, public or voluntary sectors. In this way they can act as catalysts for change (see Exhibits 2.3 and 2.4 later in this chapter). Conceptualizations of social entrepreneurship stress the social innovation processes undertaken by social entrepreneurs. The concept is also now being used to describe a wide spectrum of initiatives, not only within the SE sector but also within the voluntary and corporate sectors (Nicholls, 2006). Two different types of social entrepreneur are described:

- those whose belief in a social cause inspires them to become entrepreneurial;
- entrepreneurs who decide to apply their business skills to solve a social problem.

These individuals may set up SEs, but they could also set up other types of organizations or networks or alter public policy frameworks.

Bull (2006) argues that, as in the SME literature, it is naïve to suggest that the SEs are entirely made up of entrepreneurs. He also argues that the success of a social entrepreneur should be viewed not only in terms of economic success but also in terms of organizational entrepreneurialism and social success. Thompson (2008) agrees and proposes that, while SEs may create both social and economic wealth, they need not be run by entrepreneurial characters and their behavior does not have to conform to what we understand as entrepreneurial.

Parkinson and Howorth (2007) found significant differences between the language used by social entrepreneurs and that of mainstream private-sector entrepreneurs. Concepts of community, collectivism, localness and the desire to focus business on community needs or not were the key differences.

A developing demographic trend that may create the potential for new social entrepreneurs is that of ‘downshifting’. Research by Prudential Insurance showed that 1.4 million

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Britons had already reduced their incomes in exchange for a better quality of life. There may be an opportunity to attract these ‘downshiffters’, who may possess strong business acumen, to a career in social entrepreneurship. It is clear that SE as a term prioritizes organizational forms that trade to achieve their social mission over individuals who do so (Birch and Whittam, 2006).

For further reading on conceptualizing social enterprise and social entrepreneurship, see Professor John Thompson’s paper in the *Social Enterprise Journal* (see the References section at the end of this chapter for further details).

### FORMS OF SES

Legal structure is viewed by some as helping to define SEs, but this is complicated by international variations in the legal format (Jones and Keogh, 2006). Some argue that it is purpose/mission that defines a SE rather than structure (Shaw and Carter, 2007). The legal structures commonly associated with SEs include the following:

- charity that trades;
- trusts;
- community interest company (CIC);
- company limited by guarantee;
- company limited by shares;
- community benefit society;
- industrial and provident society;
- unincorporated association.

Until the recent introduction of CIC, SEs in the UK have not been defined by a legal form. They have therefore used many organizational forms, including social firms, intermediate labour market (ILM) companies, development trusts, cooperatives, employee-owned companies, community enterprises, housing associations, football supporters’ trusts, leisure trusts’ charities with trading arms, and credit unions, among others. Exhibit 2.2 gives some examples of UK SEs that have adopted different organizational forms. The diversity of these forms demonstrates the innovative nature and richness of the social enterprise sector.

#### **Exhibit 2.2 Some forms SEs can take**

##### **Social firms**

These are businesses created to provide integrated employment and training for people with a disability or other disadvantage in the labour market (Social Enterprise Coalition, 2003). COPE, which stands for

Community Opportunities for Participation in Enterprise, established on the Shetland Islands in 1997, is an example of a social firm. COPE creates employment and training opportunities for people with learning disabilities by running businesses involved in soapmaking and catering to supply the tourist industry. COPE is a limited company with charitable status and employs more than 40 staff, trainees and volunteers.

### **Development trusts**

Such trusts are community enterprises that are locally based and engaged in regeneration activities through a wide range of trade and service delivery operations and partnerships with other sectors. Common activities include community development, training, property development and management, environmental improvements, business development, building restoration and managed work space.

A development trust is not a legal structure in itself, but is usually registered as either a company or an industrial and provident society.

ELECT, based in Merseyside, is a development trust. It was set up in 1998 to regenerate disadvantaged communities by forming SEs in order to create job opportunities. ELECT has set up over 30 SEs, including daycare services, youth and health projects. Its turnover has grown from £69,000 to £1.5 million and it employs 25 staff (interview with Allen, 2007).

### **Cooperatives**

Cooperatives are structured and run in accordance with the cooperative principals:

- voluntary and open membership;
- democratic member control;
- economic participation by members;
- autonomy and independence;
- education, training and information;
- cooperation between cooperatives;
- concern for community.

The members who own and control the cooperative can be employees (a worker coop, see Doherty and Thompson 2006 for Suma Case study), customers (a consumer coop, such as Co-operative Food), tenants (a housing coop) or a combination of these groups.

The Midcounties Co-op is known for some interesting ventures, including retail, funeral care and car dealership ([www.osg.coop](http://www.osg.coop)). It is the fourth largest regional consumer coop in the UK, with a turnover of £300 million. In 2002 it launched a new social venture called Imagine Co-operative Childcare ([www.imagine.coop](http://www.imagine.coop)) to provide affordable childcare across its trading area. The childcare SE now boasts five nurseries.

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### **Community enterprise and intermediate labour market (ILM) company**

CREATE (Community Recycling and Training) is a SE with four aims:

- to recycle used white goods;
- provide affordable white goods for low-income households;
- provide employment for long-term unemployed adults (this is the ILM part);
- be viable and sustainable.

This enterprise is based in Merseyside and has ILM contracts with Liverpool, St Helens and Knowsley councils (local government authorities). CREATE's income is made up in the following way: 56 per cent from the sale of raw or refurbished appliances, 42 per cent from training contracts and 2 per cent from grant income. It is worth noting here that, in 1998, 53 per cent of CREATE's income was derived from grants. CREATE's turnover has grown from £650,000 in 2001 to £2.1 million in 2006/2007. Greg Walker (its Chief Executive) explains that 'our transition from grant income to trading was achieved through a combination of having a Board with a shared vision, a human resource plan that recognizes the skills of each employee, a passionate management team committed to raising the standard of our service.' Greg also explains that, 'We provide a professional service that provides a 12-month guarantee for reconditioned electrical goods and achieves a less than 10 per cent returns rate. This compares favourably with an average 12 per cent returns rate from new appliances from competitors in the private sector. The enterprise works across all economic sectors and searches for win-win situations' (interview with Walker, 2007).

### **Employee-owned businesses**

These are companies that are wholly or substantially owned by the people who work in them ([www.employeeownership.co.uk](http://www.employeeownership.co.uk)).

Eaga is an example of a large employee-owned SE. It has a turnover of £345 million and provides energy-efficient solutions for vulnerable people living in cold, damp and energy-inefficient homes. Since 1990 Eaga has improved the energy efficiency of 5 million disadvantaged households by providing sustainable services and products that address the government's environmental, social and energy efficiency objectives.

On 7 June 2007, Eaga was floated and admitted to the London Stock Exchange. The flotation was to raise £220 million for new investment in the business, but 51 per cent of Eaga's shares remain in employee ownership.

### **Fair trade SEs**

Wholly fair trade companies challenge conventional international trade by aiming to improve the livelihoods of small-holder farmers in less developed countries.

One such company is Divine Chocolate (formerly Day Chocolate) which won SE of the Year at the Enterprise Solutions Awards 2007.

Divine shares with its partners a mission to improve the livelihoods and opportunities of small-scale cocoa farmers in West Africa by establishing a dynamic, branded company in the valuable UK chocolate market (Doherty and Tranchell, 2005; Tiffen, 2002). The cocoa farmers' cooperative Kuapa Kokoo (KK) in Ghana is the joint owner of Divine, with a shareholding of 45 per cent, and has two seats on the Board. Divine Chocolate pays both a fair trade price and a 'social premium' for all the cocoa purchased from KK (Doherty and Tranchell, 2005). Consequently, its branded products, Divine and Dubble, all carry the Fairtrade Mark. Despite the competitive conditions of the UK confectionery sector, Divine has managed to grow, since it was set up in 1998, to a turnover of £10 million by developing fair trade brands that appeal to an increasing number of ethical consumers.

### **Charities with trading arms**

The Trojans Scheme is an educational and training charity based in South West London (NCVO, 2008; Social Enterprise Coalition, 2003). Its trading arm, Kids City, runs out-of-school play activities for children aged 4–11 years plus activity schemes for teenagers aged 14–19. In addition, the SE provides volunteering, employment and training opportunities for adults living in areas of high unemployment. Kids City employs 85 staff – 14 full-time and the remainder part time – and over 110 volunteers. Kids City operates in areas ranked among the 10 per cent most deprived in England. It works with 14 schools in Lambeth and Wandsworth, with 2300 children using the service each week. Its income has grown from £97,000 in 1997 to over £1 million in 2006. The organization has adopted a SE model to boost its sustainability.

### **Credit unions**

These are third-sector lenders within the economy. They are financial not-for-profit cooperatives offering savings and loans facilities to their members with the aim of financial inclusion.

All credit unions are regulated and supervised by the Financial Services Authority. There are 3.3 million households nationally outside the mainstream financial services market. The Association of British Credit Unions states that there are currently 561 credit unions in the UK. One such is the Enterprise Credit Union (ECU), based in Huyton in Knowsley, Merseyside.

The 2004 Index of Deprivation placed Knowsley as the third most deprived borough nationally. The ECU aims to address the stark problems of financial exclusion and now has 3426 members in a 17.5 square mile geographic area. The ECU offers a number of financial services, including instant accounts, low-interest loans, savings accounts and insurance.

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Collectively, SEs are not registered by any central body. However, since July 2005, they have been able to register as a new legal form – the community interest company (Social Enterprise Coalition, 2008). The office of the Regulator (2005) defines this form as follows:

**A limited liability company which carries on a social activity and it must be able to generate surpluses to support its activities, maintain its assets, makes its contributions to the community and in some cases make limited returns to its investors.'**

The Community interest company (CIC) is a new limited company structure for SEs that secures an 'asset lock' for the community and focuses on community benefit (Dunn and Riley, 2004). It has been designed to make incorporation simple for SEs wishing to use the familiar corporate form with a separate legal identity from its members.

Compared with other limited companies, CICs are subject to additional regulation to ensure that the community benefits ([www.cicregulator.gov.uk](http://www.cicregulator.gov.uk)).

The registration of a company as a CIC has to be approved by the regulator, who also thereafter has a monitoring and enforcement role. To apply for registration, the SE must provide the regulator with evidence that it satisfies the community interest test. In order to determine whether or not a company satisfies (or will satisfy) the test, the SE needs to consider:

- the purposes for which it has been set up;
- the range of activities it is engaged in;
- who will be seen as benefiting from its activities (Community Interest Companies, 2006).

There are now over 2000 organizations in the UK registered as CICs ([www.cicregulator.gov.uk](http://www.cicregulator.gov.uk)). Each CIC is required to report to the regulator on what it delivers for the community and its stakeholder involvement. In addition to the 'asset lock', CICs are subject to a dividend cap. This means that, unlike most companies, CICs may only declare a dividend by an ordinary or special resolution of its members (a dividend cannot be declared by the directors alone).

Julie Court (Deputy Regulator for Community Interest Companies) explains: 'I have been involved in community work over many years and see the creation of CICs as a major addition to the development and expansion of community-orientated activities. This additional legal form is complementary to what is already available' (interview with Court, 2006). However, recent reports highlight that a growing number of people are of the opinion that both the dividend and interest caps associated with CICs may be too restrictive. Attracting start-up and growth capital from private investors is proving challenging. Another school of thought is that the respective caps *enhance* the CIC brand (*Social Enterprise Magazine*, 2008a). Certainly the asset lock is an attractive mechanism for those involved in community asset transfer. Perhaps lifting the rate of the dividend cap is one solution.

ECT, described in Exhibit 2.3, is an example of well-known SE that converted to being a community interest company in 2005.

### Exhibit 2.3 ECT

ECT, with a turnover of £60 million and over 1000 staff, is the largest SE to be awarded CIC status (ECT, 2007).

ECT began life 23 years ago as Ealing Community Transport, enabling residents with mobility difficulties to get out and about. Today, ECT has grown and diversified into a range of other community services, including recycling, street cleaning, waste management, public transport and healthcare, delivering services to over 20 UK local authorities. The ECT Group, alongside its wholly owned subsidiaries ECT Recycling and ECT Bus, are now registered as community interest companies (ECT, 2006).

ECT often competes with larger private providers for public service contracts. According to Stephen Sears (ECT's Chief Executive), the CIC status provides ECT with a clear and defined structure that gives ECT legitimacy in the eyes of key decisionmakers. Sears explains, 'decisionmakers have sometimes opted for profit-driven companies as they see them as less risk. The perceived risk of dealing with SEs comes from a lack of understanding. The fact that CICs will be registered at Companies House drives home the reality that we are a legitimate enterprise' (ECT, 2007).

Since this case study was written, ECT announced in July 2008 the sale of its recycling arm, ECT Recycling, to May Gurney – a large, private-sector maintenance and support services company – in a deal worth £15.3 million. Sears explains that ECT recycling will remain a CIC – after all, protecting the asset was the point of becoming a CIC in the first place. May Gurney is also keen to acquire the expertise of ECT, perhaps as part of its corporate social responsibility strategy. The move raises some key questions for discussion.

- Will future contracts won from the legitimacy provided via the CIC legal form be operated through the ECT CIC?
- How will the future of employees' terms and conditions be affected?
- What about those commissioners and local residents who thought that they were supporting a SE when the contracts were given to ECT. How do they feel?

There is no doubt that, in parts of local government, contracts are getting larger. Perhaps the move by ECT to team up with this private partner could be one way to enable SEs to scale up. The true test going forward will be whether or not the social objectives remain the same and the community need continues to be fulfilled (Hampson, 2008).

Other European countries also have specific legal forms for SEs, including the Italian social cooperative status (see Exhibit 1.1), Belgium's companies with a social purpose and Portugals', social solidarity cooperatives (see the Defourny and Nyssens (2008) for a more in-depth look at specific legal forms by nation state).

## THE SCALE AND SCOPE OF SES

Due to the lack of any central body for SEs, it is challenging to get some measure of both the actual contribution and potential of SEs when placed within the context of the wider social economy (which we have seen referred to as the third sector), particularly if the current trends for social economy organizations to move towards more business, market-orientated modes of operation are taken into account. In the UK, the turnover of cooperatives is around £20 billion – consumer cooperatives alone have a turnover of £12.5 billion and 9.8 million members ([www.co-operatives-uk.coop](http://www.co-operatives-uk.coop)). There are 60 building societies with assets of £305 billion, more than 15 million savers and 2.5 million borrowers ([www.bsa.org.uk](http://www.bsa.org.uk)). Housing corporation accounts for 2006 show that there are 1950 housing associations managing 2.2 million properties worth £74 billion ([www.housingcorp.gov.uk](http://www.housingcorp.gov.uk)). In the charitable and not-for-profit sector, there are between 500,000 and 700,000 organizations. Within this, there are 169,000 ‘general charities’ with an income of £26.3 billion in 2003/04 and a paid workforce of at least 608,000 ([www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)). Since 2000, the sector has seen a net increase of 28,000 organizations (NCVO, 2006).

A number of types of SEs are growing fast. The past 10 years have seen the creation of 110 leisure trusts, where local authority in-house leisure services have been turned into SEs. They now have a combined turnover of more than £500 million, employ over 13,000 people and have in excess of 118 million customer visits per year ([www.sporta.org](http://www.sporta.org)). Development trusts (a form of community enterprise based on the use of community-owned assets that generate income to meet local needs, often in areas of greatest economic decline) have also seen rapid growth. There are now 385 such trusts with a combined turnover in the region of £210 million and £340 million-worth of assets in community ownership, employing 5000 staff (Development Trusts Association, 2006).

Another organizational form SEs can take that was outlined above is the social firm. Nearly one in five people of working age in Britain is disabled. Almost half of these 6.9 million people are unemployed. Since 1997, the number of social firms has grown from just 5 SEs to 137 social firms by 2007, creating a total of 1625 jobs for disabled people (Reynolds, 2007b). Social Firms UK (SFUK) now has its own quality mark. Insufficient employment opportunities for disabled and disadvantaged people is a worldwide problem. In 2007 SFUK launched the International Social Firms Association with the aim of providing solutions to common challenges and sharing best practice (Reynolds, 2007a).

In addition, another form for SEs that is displaying growth is the fair trade company. Total fair trade sales in the UK reached £490 million in 2007 (see Exhibit 1.4), but this figure includes sales of supermarkets’ own brands and sales from private-sector companies that have recently launched fair trade products – for example, Nestlé Plc with Nestlé Partners Blend. Those 100 per cent fair trade companies that have as their mission alleviating poverty in commodity supply chains are regarded by Lowe and Davenport (2005) as radical mainstreaming projects that maintain the transformative message of fairtrade. These include fair trade companies such as Cafédirect, Divine Chocolate, the fresh produce business Agrofair and the fair trade nut company called Liberation (at the time of writing it has just been launched and is in its first year of



**Table 2.1 Fair trade sales growth by 100 per cent fair trade companies**

SEs	Annual sales in 2007 £ million	% growth
Agrofair	7.6	56
Cafedirect	22	3
Divine Chocolate Ltd	11	19
Traidcraft	16.5	5

Source: Annual reports of all companies, 2007

trading), all of which are examples of alternative approaches to the market with southern hemisphere producer organizations being shareholders in these northern hemisphere fair trade companies. You can also add to this list Traidcraft PIC. The growth in sales of these companies are highlighted in Table 2.1.

It is important to note that SEs come in all shapes and sizes. Many start small and will remain locally based businesses operating in niche markets, meeting local needs. Others operate nationally or even internationally. The largest in the UK is probably the Co-operative Group, which has a turnover in excess of £8 billion, more than 70,000 employees and 5.5 million members. Others such as Greenwich Leisure are also very significant businesses. Greenwich Leisure has a turnover of £28.5 million and over 3000 staff ([www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)). Another example is Eaga – an employee-owned business based in Newcastle-upon-Tyne that has a turnover approaching £345 million and more than 500 staff ([www.eaga.com](http://www.eaga.com)). According to the Employee Ownership Association, this group of enterprises is worth £20 billion annually and is growing. The John Lewis Partnership is another good example of an employee-owned business.

The 2005 survey of SEs for the Small Business Review Service, however, considered only two forms of SEs: companies limited by guarantee (CLG) and industrial and provident societies (IPS). It is clear that they do not account for all forms of SEs, hence the need for a new comprehensive mapping study of the sector. Work being carried out by Professor Fergus Lyon at Middlesex University will be useful in this respect. He calls for a common set of methodologies for mapping the sector and outlines the gaps in previous studies, which failed to capture those charities involved in trading. Added to this, some organizations do not see themselves as SEs, but they are involved in social enterprise activities.

Lyon (2008a) argues for the application of the DTT's definition in the mapping of SEs and proposes three tests for them, namely:

- social ownership – they are autonomous organizations with an element of participatory governance involving stakeholders and trustees, with profits used for the community or shared with stakeholders;
- enterprise orientation – income comes from trading;
- social aims – social (and environmental) benefits that are not limited to a restricted group.

Lyon (2008a) supports this approach to mapping the SE sector by going into these tests in further detail.

## Social ownership

Social ownership is defined by ECOTEC (2003) as ‘autonomous organizations with a governance and ownership structure based on participation by stakeholder groups and trustees’. The key categories include community interest companies, companies limited by guarantee, industrial and provident societies, housing associations and registered charities with trading income. In each of these, there are elements of democratic governance. They should be autonomous and institutionally separate from government.

Using ownership structures to distinguish between the for-profit and social enterprise sectors is also challenging where there are social firms or fair trade organizations registered as companies limited by shares. Companies limited by shares are therefore included where they are identified by local mapping exercises and where more than 50 per cent of any surplus or profit goes towards achieving social goals.

## Trading income

Trading income refers to ‘income from sale of goods and services’ and ‘payments received in direct exchange for a product, service’ and indicates an enterprise orientation. While some studies propose a cut-off of 50 per cent of income from trading to define social enterprises, others, such as the IFF (2005), use a 25 per cent threshold so as to include organizations that are moving towards a SE model. However, this arbitrary cut-off point can exclude those organizations aiming to increase their SE activities.

Lyon (2008a) explains that, based on previous mapping studies, income should be included from contracts and service-level agreements with public bodies, but exclude grants, subsidies, fundraising, membership fees from supporters without specific benefits, voluntary contributions and donations.

## Social aims

Lyon builds on the definition of a SE, saying that it is ‘primarily social (including environmental) objectives and it principally reinvests its surplus in the business or in the community, in pursuit of these objectives’. However, Lyon also argues that this is open to some degree of interpretation.

Key issues here include the following.

- Social benefits should extend beyond a membership group, unless these are socially disadvantaged/excluded. In this we are guided by the community interest and charitable interest tests from the CIC guidance.
- CIC guidance states that a ‘reasonable person’ test should be applied regarding what constitutes community/wider public interest. Access to benefits provided by the organization should be ‘widely available and not confined to an unduly restricted group’.
- The CIC test guidance also indicates that political parties and organizations, the purposes of which are support for a political party or political campaigning, should be excluded.

- The charitable status test is that ‘charities must benefit the community at large or a substantial section within it. They must not entirely exclude those of limited means’.

There are several difficult cases, such as housing associations, that should be included if they are registered as charities and have social objectives, such as the provision of sheltered or affordable housing and targeting disadvantaged groups. Difficulties may arise where organizations are working purely in a commercial environment or housing stock is moved from a local authority with considerable local authority control still being exerted.

See further work on this subject by Fergus Lyon (2008b).

### Building capacity

The DTI’s ‘Social enterprise: a strategy for success’ document in 2002 identified a lack of understanding by the financial sector as a barrier to building capacity in the social enterprise sector. There are now several specialist banks working in this sector, including the Charity Bank, Triodos Bank (2007), plus community development finance institutions (see Exhibit 1.5). In addition, there are private equity groups such as Venturesome and Bridgeventures, plus specialist units within mainstream banks. One such example is the not for profit team at NatWest Bank (now Royal Bank of Scotland).

A 2003 Bank of England report into the financing of SEs found a small demand for conventional venture capital or business angel-type financing. This occurs for a number of reasons, including risk aversion, availability of cheaper funding sources, such as grants, limited profits for shareholders, lack of a conventional exit strategy and the unwillingness on the part of SEs to cede ownership to external investors. Both the SEs and venture capitalists must share a long-term vision. This issue is illustrated by the SE Poptel, which arose from the workers’ cooperative movement. Poptel competed in the technology sector and set up the people’s Internet service Easinet. To further expand the business, Poptel attracted venture capital investment. However, when the external drivers in the market changed, the venture capital provider did not have the long-term vision required to lower its expectations.

Harding (2006) argues that weak management teams and inadequate business planning course problems regarding accessing appropriate finance. However, the report did find that 40 per cent of SEs (larger, established SEs) do use a range of external financing techniques involving banks and other lenders, such as CDFIs (see Exhibit 1.5). There is also evidence to suggest that banks can be risk-averse. Tiffen (2002) explains that Divine Chocolate, when it was set up in 1998, struggled to secure loan finance from a range of banks. A breakthrough came in the form of a loan guarantor agreement from the Department for International Development, which secured its initial start-up finance from the National Westminster Bank (now the Royal Bank of Scotland).

Recent literature regarding SEs identifies a growth in innovative forms of investment, such as loans, near-equity and patient capital (Jones et al., 2007). In the USA, there has been the emergence of ‘venture philanthropy’ (Letts et al., 1999). There is also the development of longer-term patient finance from social banks such as Triodos, which means that they are prepared to accept lower returns in exchange for measurable social outputs (Brown and Murphy, 2003).

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There is an ambition, both within the sector and externally, to scale up SEs to manage rapidly developing expectations, particularly in areas such as waste services (Darby and Jenkins, 2005). New approaches such as 'social franchising' are emerging to support them as they build capacity (Litalien, 2006). Other potential approaches include a social stock exchange and private partnerships, the move by ECT being a good example of this (see Exhibit 2.4).

The SEs' funding mixes and the combination of grant and trading income are a unique aspect of SEs. A number of banks have specialist teams working in the social economy sector in order to develop capacity. One such bank, NatWest Bank (now the Royal Bank of Scotland) is discussed in Exhibit 2.4.

### **Exhibit 2.4 Help for SEs from NatWest and others**

The not for profit team at the NatWest Bank (now the Royal Bank of Scotland) consists of eight business managers and six support staff who together support between 550 and 600 third-sector organizations. David Brinsford (interview, 2007), the head of the unit, explains:

Our assessment of a SE and its risk potential is no different from our assessment of other small-to-medium-sized enterprises. However, it is important to understand the differences in the structure of the balance sheet. You need to understand that from start-up to break-even point can be a longer time period. We often work on a consortia approach with a blend of finance including ourselves, a CDFI and other partners.

Brinsford also argues that SEs need to have a strong social mission combined with excellent products and services and be dedicated to quality.

There are some other investment initiatives worthy of mention here, including the following.

- Asset development. The 'making assets work: the Quirk review' (DCLG, 2007) highlighted the importance of a sustainable asset base for SEs. To this end, the UK government is committed to funding community anchors. This is particularly useful for development trusts (OTS, 2007).
- Raising share capital. Café direct is one example of a SE raising share capital. In 2004, it raised £5 million in a share issue sponsored by Triodos Bank. The company's shares are not listed on an exchange but on a matched bargaining system called ETHEX run by Triodos Bank. Currently, the OTS is supporting research into the feasibility of a 'social' capital market where investors interested in a blended social and financial return could make and trade investments (OTS, 2007).
- There is a government initiative, in partnership with the bank and building society sector, to develop a scheme to access unclaimed assets lying dormant in accounts and reinvest them to benefit community projects (HM Treasury, 2005).
- The UK government announced that £10 million is to be made available for co-investment with the private sector in SEs.

According to Peattie and Morley (2008) SEs' relationships with the private sector are relatively undeveloped when compared with their relationships with the public sector. Private companies can benefit from relationships with SEs by both accessing key expertise and enhancing their reputation (Young, 1999). Groundwork SE in the UK is offering help in this area by providing consultancy advice in environmental management for private-sector firms (interview with Smith, 2007). There are also examples of private-sector firms building links with SEs to provide volunteer opportunities for employees, leading to improved staff motivation and retention. The UK-based Brighton and Hove SE Partnership is a good example of this approach (see Exhibit 2.5).

### **Exhibit 2.5 The Brighton and Hove Business Community Partnership ([www.bhbcp.org.uk](http://www.bhbcp.org.uk))**

The Brighton and Hove Business Community Partnership (BCP) is a membership-based SE that brings together commercial, community and voluntary-sector organizations to support community developments and encourage social entrepreneurship. Based in Brighton, it brings together third-sector organizations including SEs and private-sector companies to work in a partnership network to promote positive community change.

Since 1996, the partnership has brokered deals in kind between private businesses and third-sector organizations to the value of £3 million. It is funded by a range of revenue streams, including membership subscriptions, consultancy fees and charity grants. Its key services include its corporate social responsibility programmes, which enable private-sector companies to provide a range of services to third-sector organizations, including:

- mentoring support;
- in kind donations of services;
- volunteer time;
- trustee and management committee members;
- training and work placement opportunities.

In 2006/2007, the BCP's employee volunteering programme enabled 756 business volunteers to support 42 different third-sector organizations. This represents an investment of £79,380 to the community but also results in the development of leadership, strong teams and company values within participating businesses.

The BCP illustrates the two-way opportunities that accrue from SE and private-sector companies working together. This innovative support programme for SEs has led to the growth of SEs in Brighton. From a mapping study carried out in collaboration with the University of Brighton, it was found that 110 SEs operate in the Brighton and Hove district, contributing £21 million to the economy and employing 1262 people. Further analysis reveals that 20 per cent of these SEs obtain 91 per cent of their income from trading, 66 per cent of them work with volunteers, giving a total of 3042 volunteers work in the sector, and 52 per cent employ staff from disadvantaged groups (BCP, 2007).

The Community Action Network (CAN) Match winners initiative is another good example of how SEs can build mutually beneficial partnerships with the private sector (Community Action Network, 2006). As discussed earlier in this chapter (see Exhibit 2.4), there has also been the private-sector purchase of ECT Group. Perhaps private-sector partnerships can help capitalize SEs that are working on large, local government contracts requiring significant capital investment. It is a sign, too, that SEs can be attractive to the private sector. However, SEs must ensure that any such relationship is based on a shared social mission.

Public-sector partnerships are also important for building capacity in the social enterprise sector. Governments see SEs as a means of modernizing public-sector services. However, the success of SEs in winning public-sector contracts has been patchy across national, regional and local government. This is because they are competing against some large private-sector providers that can deliver economies of scale.

The UK Government has launched a strategy called 'Partnership in public services; an action plan for third sector involvement' (OTS, 2006). The action plan outlines the need to build knowledge of public-sector procurement and commissioning processes within the sector and raise awareness of the value of SEs with central and local government commissioners.

'Procurement' is defined as being the acquisition of goods and services from third-party suppliers under legally binding contractual terms where all the conditions necessary to form a legally binding contract are met. 'Commissioning,' however, is different – it is the process of specifying, securing and monitoring services to meet people's needs. Commissioning is done at a strategic level and normally involves elected officers in local government.

The public sector uses procurement to:

- improve services;
- achieve best value;
- make the public sector more efficient;
- encourage innovation.

In the UK, tenders are normally invited when the estimated expenditure or anticipated income is £100,000 or more. Each tender will outline a service specification and the bids will be evaluated against a set of weighted criteria, which will typically include price, management of the service, partnership working, knowledge and experience of working with the client, assessment of needs and support planning and details of the proposed service.

Moves to incorporate well-being and the EU's sustainable procurement agenda into public-sector procurement provide concrete opportunities for SEs. It is important for them to explain fully their experience of working with the client group and so on. Some SEs will have to form consortia with other SEs or private-sector partners to deliver a winning tender, particularly if it needs to be on a national basis. Working with the public sector provides good opportunities for scaling up SEs and such contracts are often solid and long term with timely payments. They provide SEs with opportunities to move their businesses into a city residents' daily lives. However, SEs must guard against contract dependency.

## CONCLUSION: THE KEY MANAGEMENT CHALLENGES FOR SES

Some SEs are set up from the start as SEs, some emerge from the public sector via the modernization of public services agendas, while a sizable number are voluntary organizations that are in transition, becoming SEs. Borzaga and Defourney (2001) highlight the key management challenges facing SEs across Europe:

- developing a supportive regulatory and legislative environment;
- ensuring quality of products and services;
- upgrading skills and jobs;
- securing management expertise;
- financing;
- establishing networks and cooperatives;
- establishing adequate governance structures.

Westall and Chalkley (2007) propose a number of barriers that echo the ones listed above, including problems accessing appropriate forms of finance and advice and support. In addition, a lack of fixed assets and ensuring that public services procured by government at national and local levels are genuinely open to SEs, such as market access (Flockhart, 2005), are mentioned. Also, champions in government need to work with the sector to evaluate the social, environmental and economic contribution made by SEs. Paton (2003) also identified the need for planning and strategic management in the social enterprise sector in order for it to realize its potential.

Bearing in mind these previously published proposals, we also sought the views of a number of opinion leaders on the key management challenges.

A number of authors would add that there is a need for the sector to measure the many intangible benefits created by SEs (Aereon-Thomas et al., 2004; Brennan and Ackers, 2004; Darby and Jenkins, 2006). This call is partly driven by the general move towards professionalizing the sector and the need to demonstrate its effectiveness. Arthur et al. (2006) argues that the debate around effectiveness is mainly focused on the enterprise narrative and not the social aspect. They propose that success from a business/enterprise perspective does not naturally lead to the achievement of social aims. The DTI (2002) also highlighted the tensions and conflicts for SEs in meeting both financial *and* social bottom lines. Speckbacher (2003) adds that profit as a single measure of success does not work as it fails to capture other important performance outputs of SEs.

This challenge to measure social performance has been met by a range of methodologies, including:

- social accounting;
- social return on investment;
- social audit (Pearce, 2003);

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- local multiplier models, LM2 and LM3 (Sacks, 2001);
- an adapted form of the Balanced Scorecard (Bull, 2006; Somers, 2005).

The Balanced Scorecard, developed in the private-sector literature, is, Kaplan and Norton (1996) suggest, easily transferable to the social sector. The work of Bull (2006) is useful in respect of this tool.

The development of a comprehensive set of indicators that capture the performance and social, economic and environmental value of SEs, represents an opportunity to communicate the added value of SEs with internal and external stakeholders. This could be used to create competitive advantage in public-sector tendering and bidding for contracts with retailers (for example, fair trade organizations). In addition, this focus on performance could lead to more informed strategic decisionmaking (Darby and Jenkins, 2006).

According to Cherry Read, former Head of Policy and Communications at SEC, (interview, 2007):

**Significant numbers of SEs originate from both the voluntary and public sector, which means the need to adopt a performance agenda can be a real challenge. Managers need to develop skills in reporting, measuring impact, entrepreneurship and legal knowledge. Proving what you do should lead to improvements in your performance and will help SEs to both adapt to a rapidly changing environment and create innovation.**

George Leahy, who is working for the SEC but has been seconded from the Department of Health (interview, 2007), agrees and proposes that ‘measuring impact will put some kind of value on those trust relationships which are an asset of SEs’.

David Brinsford (former Associate Director, Business Development, Charities and Not for Profit Sector, NatWest Bank, now Royal Bank of Scotland) proposes that:

**SE managers need to be dedicated and business-minded. We look for key competencies within the management team, including financial management, strategic management and human resources. Managers of SEs need to understand the risks. When making assessments we are looking for knowledge of the strategic management process, including market knowledge and understanding of the external environment. This understanding is particularly important in those organizations in transition from the voluntary or public sector.**

Greg Walker Chief Executive at CREATE, the community enterprise that recycles electrical goods discussed earlier, agrees on the importance of understanding the external environment. New EU legislation called the Waste Electrical and Electronic Equipment (WEE) Directive has resulted in CREATE having to redesign its service and supply chain. The new directive means that manufacturers, not retailers or local councils, are responsible for paying for the disposal of electrical goods. CREATE has played a very proactive role in national discussions with government and other key



stakeholders in designing how the UK should manage its operations in order to conform with this new legislation. Greg Walker explains, ‘we have not only been on top of understanding the environment but we have also taken a proactive role in designing new supply chains with other stakeholders.’

SEs are under pressure to perform in the marketplace and competitive tendering process as well as the subsequent delivery of quality products/services. Hence, there has been a drive within the sector towards professionalization. This has been interpreted as the need to adopt mainstream management practices (Golding and Peattie, 2005). This is not always the case, however. Divine Chocolate Ltd has been successful in mainstreaming its fair trade chocolate range in the UK confectionery market. Lowe and Davenport (2005) have warned of the potential for cooption and dilution of the fair trade transformative message when in the mainstream, leading to ‘clean-wash’ by larger private-sector rivals. However, Divine has managed to maintain its focus on campaigning and the transformative message of fair trade. This has been termed ‘radical mainstreaming’ (Doherty and Tranchell, 2007). In fact, being in the mainstream has enabled Divine to speak to more people more often about its social aims and its joint ownership with Kuapa Kokoo farmers cooperative in Ghana than if it had not made such a move.

## SUMMARY

Arthur et al. (2006) argue that, currently in SE research, the business narrative is being prioritized over concepts of the social. However, a number of authors propose that the sector is under-researched full stop and call for the gathering of robust evidence to show the value of SEs in society and clarify management aspects (Haugh, 2005; Hines, 2005).

This author would suggest that any research on SEs needs to look at both the social *and* the business considerations. The standard business literature that has accumulated in relation to the profit maximization model (single bottom line) clearly does not prioritize these social aspects.

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