social enterprise futures

Edited by Andrea Westall and Danny Chalkley

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2007

THE **SMITH** INSTITUTE

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Preface
Wilf Stevenson, Director, Smith Institute

The Smith Institute is an independent think tank which has been set up to undertake research and education in issues that flow from the changing relationship between social values and economic imperatives. In recent years the institute has centred its work on the policy implications arising from the interactions of equality, enterprise and equity.

Social enterprises are dynamic businesses with a social purpose, working all around the UK and internationally to deliver lasting social and environmental change. The social enterprise sector is incredibly diverse, encompassing co-operatives, development trusts, community enterprises, housing associations, football supporters' trusts, social firms and leisure trusts, among others. Recent data published by the Small Business Service suggests that there are more than 15,000 social enterprises in the UK, employing nearly half a million people, with a combined turnover of £18 billion.

Despite a genuine recognition of their strong record in delivering services, the take-up of the social enterprise model across local and national government is patchy and fails to reflect the enthusiasm with which it is discussed. The essays in this collection bring the experiences of social entrepreneurs together with those of experts from local and regional government, business and the charitable sectors to examine how the barriers to more widespread use of social enterprise could be surmounted. What can companies, local authorities and government do to ensure that the role of social enterprises as competitive businesses that create wealth and jobs is realised? What should be done to ensure a level playing field to enable social enterprises to compete for procurement contracts? Taken together, the authors' contributions offer a vision of how, with the right kind of support, the development of social enterprises could make a radical difference to the way we provide public services and stimulate community enterprise, employment and regeneration.

The Smith Institute thanks Andrea Westall and Danny Chalkley for agreeing to commission and edit this collection, and is grateful to the Social Enterprise Coalition for their support of this publication and the associated seminar.

"On behalf of the Social Enterprise Coalition I am delighted that the Smith Institute decided to publish this collection of articles on social enterprise. It marks an important contribution to stimulating the debate about the future for this exciting way of doing business".
Baroness Thornton, Chair of the Social Enterprise Coalition

Foreword
Jonathan Bland, Chief Executive of the Social Enterprise Coalition

Ten years ago, the term social enterprise was almost unheard of in this country and few entrepreneurs were in business to pursue social and environmental aims over financial ones. In 1998, after spending five years exploring the power of co-operatives and other forms of social enterprise in Continental Europe, I became convinced that businesses could deliver on growing aspirations for social and environmental change – while still being financially successful. Not only that, they could be more efficient and radically shape the market from within. I returned to Britain to help identify and support social entrepreneurs and the business models that could make this happen.

The conditions were right. Social enterprises are now competing in a wide range of markets, from health and social care, housing, children's services and transport to food and farming, environmental services and leisure. They are at the forefront of developing new forms of community organisation, fresh approaches to social and financial inclusion, and are leading the way on ethical approaches to business.

There has been a remarkable growth of interest in social enterprise over the last decade. We now have a raft of government policies to support social enterprise, the opposition parties are contesting the ground and there is almost daily coverage in the national media. And this is why: forward-thinking policy makers now recognise the potential of social enterprise to deliver on many of their goals – from better public services and urban regeneration to employment, social inclusion and the even the renewal of civil society. But the extent to which policy makers can help unleash the power of social enterprise remains to be seen.

The social enterprise movement started with the coming together of different traditions: co-operatives, community enterprises, enterprising charities and many other forms of social business. What they had in common was that they were all trading for either social

or environmental purposes, or both. They questioned conventional ways of doing business. They recognised that social enterprises were often losing out because they were not being sufficiently taken into account by existing systems for getting business advice and support, accessing finance and tendering for public service contracts. But more importantly, they shared a capacity for developing innovative solutions to some of society's toughest challenges, together with a seemingly inexhaustible belief in their ability to make things happen.

Coming together through the Social Enterprise Coalition, these social enterprises represent the development of a movement, of people with a shared passion for using business to create positive social and environmental change. It is a movement that is growing on a global scale, with particularly significant activity across Europe, as well as in the United States and Canada. It is a movement that is gaining ever increasing recognition, with honours such as the Nobel peace prize being awarded to the social entrepreneur Muhammad Yunus, founder of the Grameen Bank in Bangladesh.

In the UK, social enterprises are already playing an important role in the economy. The government estimates there are over 55,000 social enterprises, or 5% of all businesses with employees – contributing £8 billion to GDP and turning over £27 billion a year. And that is without putting a value on their social and environmental contribution. For those leading this new wave of social enterprise, this is just the beginning. The issue is how social enterprise can play an even bigger role, building a diverse and resilient economy that better serves the needs of an increasingly globalised world by combining wealth creation with social and environmental justice.

Significant barriers must now be removed to realise the full potential of social enterprise. This means ensuring that social entrepreneurs get access to appropriate forms of finance, advice and support, and making sure that any new public services markets being created by the government are genuinely open to and encourage competition by social enterprises. At the same time, champions in government need to work with the sector to evaluate the social, economic and environmental contribution of social enterprise, incorporate social enterprise into all strands of business policy, and better integrate social enterprise into the corporate plans and work streams of their departments and agencies.

But perhaps the most important action that government can take is to ensure the wide-spread promotion of social enterprise. Increasing understanding of what social enterprise is capable of is critical in local government and for all those involved in serving the

public interest. Consumers and investors also need to increase their understanding of the benefits of social enterprise so that they can make better decisions about the way they spend and invest their money. It is also hugely important to promote social enterprise to entrepreneurs of all ages and all backgrounds. It is time to put forward social enterprise as, in Chancellor Gordon Brown's words, "the new British business success story, forging a new frontier of enterprise".

I believe the essays in this monograph make a valuable contribution to taking this agenda forward, setting out a range of visions for the future of social enterprise and giving voice to the ideas of social enterprise leaders and supporters on some important next steps. And I look forward to what is going to be an extremely exciting decade for social enterprise.

Introduction

Social enterprise is now being seen as a solution to many societal challenges by all major parties. Recent government support has increased the prominence of this way of working. Specific needs have been, and are being, addressed by the government's 2002 social enterprise strategy and the 2006 social enterprise action plan, as well as on-going work by the regional development agencies (RDAs) and some local authorities.

The government now has an Office of the Third Sector, including social enterprise within a wider grouping of organisations that work for a social purpose. A third-sector review is under way, at the time of writing, designed to improve understanding of the role and support needs of the third sector in addressing social and economic regeneration. The results will influence future policy as well as inform the development of the forthcoming 2007 comprehensive spending review.

So, what else does government need to do?

Social enterprises challenge received wisdom and simple categories of "business" or "third sector", opening up new possibilities, frameworks, and ways of thinking or behaving. The Social Enterprise Coalition (SEC), the RDA National Secretariat and the Smith Institute have joined together to feed into the third-sector review as well as to explore future visions for social enterprise, their implications, and practical ways to achieve those aims. Designed to broaden understanding and debate, this pamphlet is aimed at policy makers, MPs and councillors from all parties.

While this report is future-oriented and visionary, it is not uncritical or impractical. The 10 contributors have addressed five fundamental themes. Their thoughts were supplemented by ideas generated through a brainstorm run by ?What If! – an innovation company.[1]

The contributors were set the following questions:

- **Enterprise:** How do you set up and run an effective, innovative and entrepreneurial social enterprise? What could be done to support this way of working?
- **Public procurement:** How can public procurement include and encourage social enterprise approaches to delivering social, economic and environmental benefits? How

1 For more details see: www.whatifinnovation.com

can government support the ability of social enterprises to join up different policy outcomes?

• **Skills and support:** What has been achieved and what more could be done to ensure that social enterprises are able to develop their employees and achieve their social and business goals?

• **Empowerment and community cohesion:** How can social enterprises help create community cohesion and empower people to realise their own aims, either alone or with others?

• **Finance:** What more could be done to enable appropriate investment and financial security in social enterprises?

Biographies of contributors

Pam Alexander

Pam Alexander is the chief executive of the South East England Development Agency (SEEDA). She has been chief executive of English Heritage, deputy chief executive of the Housing Corporation from 1995 to 1997, and a civil servant in the Department of the Environment. Her report for the Cabinet Office and Treasury *Better Government Services: Executive Agencies in the 21st Century* was published in July 2002 and its recommendations are being implemented.

Alexander is chair of the Peabody Trust and a non-executive director of the Housing Finance Corporation. She also chairs the Joseph Rowntree Foundation's policy and practice programme on mixed income communities and is on the shadow board of Investors in Communities.

Glenn Arradon

Glenn Arradon has been with the Development Trusts Association since 2004. Previously he spent two years in Indonesia working for an international non-governmental organisation.

As information, membership and policy officer, Arradon has produced the DTA's annual reports on the state of the development trusts movement and edited *Bonds & Bridges: a DTA practitioner guide to community diversity* (2006).

Liam Black

Liam Black is director of the Fifteen Foundation. His aim is to turn Jamie Oliver's restaurant, where unemployed young people learn catering and culinary skills, into a global social business.

Black also transformed the Liverpool-based Furniture Resource Centre Group from a small charity supplying second-hand furniture to council tenants into a £7 million business group giving work to hundreds of unemployed people and providing services to thousands of low-income families. He also successfully established The Cat's Pyjamas – connecting social enterprises globally – and is the author of *There's No Business Like Social Business*.

Jonathan Bland

Jonathan Bland has over 20 years' experience working in the social enterprise field. He is

chief executive of the Social Enterprise Coalition, which was founded in 2003 as the national body for businesses that trade with a social purpose. He spent five years in Spain as European development manager at FVECTA, the Valencian Federation of Worker Co-operatives, after which he became the director of Social Enterprise London, a leading source of expertise and support for the sector.

Bland has a long-standing role as a policy adviser to government departments on social enterprise including on HM Treasury's report on enterprise in disadvantaged areas (1999); the social enterprise strategy for success (2002); the creation of the community interest company and the social enterprise action plan (2006). He is currently part of the Department of Health's ministerial task force on third-sector commissioning of health and social care services.

Danny Chalkley
Danny Chalkley is a freelance researcher and writer. He is a literature graduate and qualified teacher whose professional experience has included teaching (both in Britain and abroad) and managerial roles within the commercial world. This has afforded him the opportunity to witness a variety of organisational models and delivery methods, with objectives ranging from the predominantly social to the exclusively financial.

He believes social enterprise is uniquely placed to deliver sustainable social objectives, through combining the best ideas, practices and motivations from a series of traditionally unrelated worlds.

Pauline Graves
Pauline Graves founded Shepshed Carers with her friend Sarah Sanders in Loughborough in 1994 as a workers' co-operative, convinced they could provide better care than they had witnessed. Their mission was to provide high-quality care for the elderly and others with high-dependency needs in their own homes.

Shepshed's mission has not been confined to the local community. Their reputation has led to a number of organisations from across the country approaching them with the aim of improving their own caring practices. Shepshed Carers is a well-known and successful elderly care provider, for example, winning the New Statesman Upstarts Awards for Social Enterprise in 2005.

Councillor Richard Kemp
Councillor Richard Kemp has been a member of Liverpool City Council for 25 years and is currently a backbench councillor. He has served as chair of housing, education and finance committee and was most recently the executive member for housing, neighbourhoods and community safety.

Kemp is now the leader of the Liberal Democrats at the Local Government Association, where he is also a member of the Central/Local Partnership (CLP), the CLP subgroup on sustainable communities and the CLP subgroup on efficiency and modernisation.

Nigel Kershaw
Nigel Kershaw is chief executive of BIGinvest and chair of *The Big Issue*. He is a leading social entrepreneur and advocate of social enterprises that offer business solutions to social problems.

Kershaw has also worked as a consultant and project manager in the publishing and printing sector, taking major capital projects from conception to production, and has founded three printing and publishing companies. He is a director of the Social Enterprise Coalition and adviser to a number of social businesses. He has also been a non-executive director of a London borough regeneration company, a trade union official and chair of the board of the London College of Communications (London University of the Arts).

Nigel Lowthrop
Nigel Lowthrop is recognised as an innovator and eco-entrepreneur and as someone who questions accepted paradigms. This year he stepped aside as director of Hill Holt Wood to concentrate on promoting this particular approach to the countryside and to establish more and larger examples of this blend of people, environment and business.

After graduating in zoology at the University of Nottingham, Lowthrop gained experience as a nature reserve warden, on forest surveys, as a biologist with the British Antarctic Survey and chief warden of a recreation area before setting up an agricultural fencing business. Following a conference in Canada, he developed the concept of economic conservation, sold the fencing company and purchased a piece of woodland. Ten years later Hill Holt Wood (Ltd) is recognised nationally as an example of successful social enterprise addressing a whole series of government issues.

Andrew Robinson MBE

Andrew Robinson MBE joined CCLA as director in November 2006. He is a trustee of the Lankelly Chase Foundation and the Community Development Foundation, as well as a number of other organisations seeking to make a tangible difference in the UK's most disadvantaged communities. He is also a member of several related government working groups and task forces. Previously he was the head of community development banking for RBS and NatWest, leading a cross-divisional team responsible for the not-for-profit and social enterprise sectors.

Robinson was also the founding director of the UK's first community development finance institution (CDFI) to provide loan finance to voluntary and community sector organisations working in the most disadvantaged communities in England. He was recognised by an MBE for services to social and community enterprise in 2003.

Fay Selvan

Fay Selvan is chief executive officer of the Big Life Company, which she established in 2002. It is the first group of social businesses and charities in the country and brings together well-known brands such as *The Big Issue in the North* and nationally innovative initiatives such as the Kath Locke Centre in Hulme, the first primary care centre run by a non-NHS agency.

Selvan established Diverse Resources in 1991 and led its development from an unincor-porated association with a turnover of just £17,000, to a group of companies and charities with a turnover of £8 million. In 1999 she was appointed executive sponsor for the Manchester, Salford and Trafford health action zone and for three years led the community programme. In February 2001 she took up an appointment as chair of Trafford North Primary Care Trust (TNPCT), then, in January 2006, she became chair of Trafford Healthcare Trust.

Andrea Westall

Andrea Westall is an independent policy analyst, researcher and writer – working with interesting and effective people or organisations to create change. She likes being in that indefinable place between business, third sector and government – translating ideas and practices and thinking up new ones.

Westall used to be deputy (and acting) director of the New Economics Foundation, director of the policy unit in the Foundation for Entrepreneurial Management at the

London Business School and a senior research fellow at the Institute for Public Policy Research. Her current interests include enterprise and social enterprise, public service reform, gender policy and the future of the third sector. She has also worked in film, journalism and publishing.

Alastair Wilson
Alastair Wilson is chief executive officer of the School for Social Entrepreneurs. After working for six years as a marketing manager for ICL/Fujitsu Computers, Wilson spent a year as a student at the School for Social Entrepreneurs. This lead him to set up Homeless Direct, a capacity-building project that supports local providers of emergency care for homeless people in recruiting donors and volunteers. After three years of running Homeless Direct, he returned to the SSE, initially as development director, now as chief executive.

Wilson is also a trustee of UnLtd (Foundation for Social Entrepreneurs), the London Funders Group and Akram Khan Dance Company, and is on the board of the Social Enterprise Coalition.

Section 1

Visions of social enterprise futures

Visions of social enterprise futures

Because people are looking for something different to address challenges like climate change, there will be a trend towards social enterprises since they mix the economic, the social and the environmental.

There will be mainstream recognition and involvement *of social enterprise in all aspects of the economy.*

Social enterprise will transfer power to citizens *over the things which affect their lives.*

These three statements were made at the brainstorm held for this report, and also underpin many of the views of this book's contributors. You may dismiss these thoughts too easily as natural idealism arising from the passionate involvement of people who work in and support social enterprises, but their implications suggest some interesting and profound responses to today's great challenges.

Gordon Brown sees his next comprehensive spending review (CSR) as addressing demographic and socioeconomic change, globalisation, climate and environmental change, global uncertainty, and technological change.[2]

At the time of writing, social enterprise is being looked at by government (and other political parties) in relation to "social and economic regeneration".[3] It is also seen to provide lessons and new approaches to inform and realise public service renewal.[4] This approach shows a limited, although important, view of what social enterprise can achieve. Government ought to think more widely and consider social enterprise effects on all the issues outlined by the comprehensive spending review. While this report does not go into the details of how social enterprise can contribute to all CSR goals, there are UK and international examples that will inform all these areas as well as potential models that could do so in future. We need to go beyond the current policy focus on poverty, deprived areas and public procurement. As Andrew Robinson points out: "We have to provide a sustainable, creative and open alternative structure to achieve social and economic change ... my experience is that only cross-sector, hybrid solutions make a difference."

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2 See: www.hm-treasury.gov.uk/spending_review/spend_index.cfm
3 *The Future Role of the Third Sector in Social & Economic Regeneration: An Interim Report* (HM Treasury, December 2006)
4 Office of the Third Sector, *Partnership in Public Services: An Action Plan for Third Sector Involvement* (2006)

In order to fully grasp the implications of these visions and realise the potential of social enterprise, we need to break out of our usual ways of looking at the world, particularly about the "natural" business model or the narrow but hugely powerful concepts and implications of mainstream economics. We need to think of social enterprise as being about ways to reconfigure relationships between the social, the economic and the environmental; to create and reorder different kinds of market and power relations; to respond to the needs and wants of a less hierarchical society; or to enable increased personal and societal well-being. It can also illustrate and imply new political frameworks for society that enable different ways of doing things and new policies.

But, as Andrew Robinson points out in section 2: "Blending words such as 'community' and 'social' with 'enterprise' and 'investment' is quite disturbing for some – a real challenge to tidy minds!"

So we have to be prepared to deal with these difficulties and struggle with language. One participant in the brainstorm believed that ultimately we will be able to "dissolve boundaries so that all organisations create social value and everybody's doing it". In that sense, social enterprise as a term would be redundant and all enterprises would be social. That view is echoed by Nigel Lowthrop when he says in his contribution that "maybe the capitalist model of the 20th century is about to be superseded by a more democratic, integrated community model, which retains the dynamic entrepreneurial approach but seeks a balanced triple bottom line (economic, social and environmental) rather than just a short-term cash return".

Life is so much simpler when you can easily classify and count, or use recognised structures with a long history to address new changes. While that is a natural response, it is widely recognised that it is not enough.

That is not to say that individual social enterprises are the answer to everything but, through the brainstorm and contributions, this book pulls together the different strands of discussion to address:

• how social enterprise has been understood and whether we need to extend our understanding;
• what has been addressed so far by government and what has been missed;
• what might be learned from social enterprise;
• how social enterprise links with other sectors, particularly mainstream business and

the government, and the implications of these synergies;
• whether "sector" is the right way to talk about social enterprise and the implications of looking at it in a different way.

Overall, we need a mindset shift and a willingness to stop thinking in old certainties and tramlines. We need to go beyond simplistic distinctions and debates between social enterprise and social entrepreneurs; to stop thinking that there is one way to conceptualise or identify ways of doing things; and to look and learn internationally. This report is designed to enable that rethink, to stimulate new debates and to discuss possible futures.

What is social enterprise?

In the UK, the following definition was agreed after copious debates between different types of social enterprise and government:

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 maximise profit for shareholders and owners.[5]

This definition is careful to use the word "principally" since there are many social enterprises that are now making clever use of outside capital and do distribute returns, albeit capped, to financial stakeholders, along with those mutuals and co-operatives that have always done so. The definition also confirms social enterprise as a form of business.

This definition primarily emphasises profit use and financial self-reliance. This simple understanding is behind, and supports, calls by government and politicians to encourage the wider third sector to move towards creating financial self-sufficiency, and to take on loans or other forms of external finance. While this is a key part of what social enterprises do, it is not the whole picture.

Implicitly, this model has perhaps overplayed the way in which socially and environmentally motivated organisations can always compete head-on in the market. The playing field is not level and it becomes even more important to recognise that many social and environmental impacts cannot easily be paid for. These activities are therefore cross-subsidised or funded through other resources, such as volunteer help or grants.

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5 Office of the Third Sector *Social Enterprise Action Plan: Scaling New Heights* (2006)

Nigel Kershaw feels that the oft-asked question about the right proportion of grant, earned income and other inputs is wrong, that grants are appropriate but are better seen as investments or contracts.

Other definitions tend to include "social ownership" or a stronger stress on "alternative" business models. Many European definitions of social enterprise, particularly, see participation being just as important as trading and emphasise their role in developing a more diverse and pluralistic democracy. They also stress their role in a "social economy" – another way of organising the market, community or individual needs and relations. A more US approach to understanding sees social enterprise as a subset of social entrepreneurship, focusing primarily on earned income as a way to achieve social aims. For example, Bill Drayton, chief executive of Ashoka, has stated that he invented the term "social enterprise" in the 1980s and uses it in this way.[6]

It may be that much of the debate about definitions and identity springs from the tendency of different organisations to be more or less American or European in their outlook or history. In the UK, we have many hybrids between the two. So we need to be aware that language is being used in quite a partial way. We should spend longer looking at the implications of these diverse traditions as well as those from other parts of the world, going beyond an unthinking acceptance of the US model, and consider the other models of society, economics and power relations that these different approaches imply.

In the UK, social enterprise was originally used as a term to repopularise co-operatives. It therefore came from a particular tradition and understanding of enterprise. Social entrepreneurship in the US is often used to refer to the model of the "heroic" individual who is different and able to do things that others cannot. Alastair Wilson, though, is keen to emphasise in his essay that everyone should be able to be a social entrepreneur, that in effect it should be normal and accessible. His vision is of "a society where everyone has the opportunity to be a social entrepreneur from any background, on any scale, and in any location".

It is also important to note the distinction between social enterprise and social entrepreneurship. The latter is used to denote individuals or groups of people who seek to create social, economic or environmental change in innovative ways through making use of available resources, often in novel combinations. They may set up a social enterprise but

6 See for example an interview with Bill Drayton in the *Financial Times* (March 2006).

they could equally well set up other types of organisation or network, or alter public policy frameworks. Social enterprise, as a term, focuses more on organisational forms that "lock in" their social mission in some way and specifically trade in order to achieve their aims.

Liam Black notes that "the truth really is that what we call the sector is hugely diverse". These case studies show some of the different approaches taken in the UK.

Case study: CIP
London-based CIP provides leisure and cultural services with the explicit purpose of improving the skills of disadvantaged people. It was established in 1998 by Hounslow Borough Council as a group limited by guarantee, with charitable status. It employs around 1,000 people, many of whom were previously long-term unemployed.

CIP breaks the mould of conventional leisure trusts by carrying out a much wider range of services for the community. It maintains commercial grounds and parks, manages libraries and a tourist information office and runs a centre for children with special needs. It also manages 31 buildings, including many of historical value, turning the sites into income-generating assets.

The revenue generation and efficiency savings made by CIP are used to provide services in areas that are unprofitable – and may otherwise not be served. This includes children's services in disadvantaged areas and literary services to prisoners. They have a turnover of £20 million and save taxpayers over £600,000 a year. The group now generates 45% of its revenue from its users and services.
(www.cip.com)

Case study: Sherwood Energy Village
Sherwood Energy Village carries out economic regeneration within a sustainable environmental framework. In 1996, it set about improving the 91-acre closed Ollerton Colliery mine in Nottinghamshire. Evolving out of the community, it has created 600 jobs so far, helping to replace those lost by the closure of the coalmine. It is building 196 residential houses and creating commercial opportunities, and already have 10 companies on site. The buildings are energy efficient and conform to high environmental standards.

A strong emphasis has been placed on providing a pleasant working environment and

areas for recreational activity. This has included providing open spaces and encouraging biodiversity. Sherwood Energy Village was among the first organisations nationally to adopt a genuinely integrated approach to social, environmental and economic regeneration. The business works to meet the needs of the ex-mining community, rather than imposing a standard solution.

The community is involved in the running of Sherwood Energy Village through public consultation, shareholding in the Industrial and Provident Society, which has 126 members, and through participation in an advisory panel with 126 members. The business has an annual turnover of £750,000, and is expecting rapid financial growth over the next year.
(www.sev.org.uk)

Case study: Belu
Belu is a producer-wholesaler in the growing market for bottled mineral water, a social enterprise that competes on quality – backed by its social and environmental credentials. The company sources its water from a natural spring in Shropshire and bottles it on location. It sells over 200,000 bottles a month to a range of leading supermarkets, restaurant chains and music festivals.

Social and environmental aims are in many ways integral to the way Belu uses its profits and runs its business. All the company's profits are directed into clean-water projects, from a river clean-up in London to providing water wells and hand pumps to bring drinking water to villagers in Mali.

Belu also invests in renewable sources of energy, works to reduce its use of energy in manufacturing and makes a range of its bottles from biodegradable plastic. Although Belu delivers socially and environmentally, it also prices its water competitively – rather than expecting its customers to pay any more than an alternative brand. Belu was founded in 2003 and has an annual turnover of over £1.5 million.
(www.belu.org)

Case study: Sunderland Home Care Associates
Sunderland Home Care Associates provides personal care and domestic services to hundreds of people in need, with the intention of enabling older, frail and disabled people to stay in their own homes longer.

The social enterprise provides training and employment opportunities in Sunderland, an area of high unemployment. The 200-plus local employees own the company, share in the profits and have a say in the decisions that affect them. Flexible working arrangements allow the employees, over 90% of who are women, to balance their work and family life more effectively. And staff turnover is significantly below the sector average.

Sunderland City Council's social services contract a number of services from the organisation, including supporting disabled children. SHCA provides services to 550 people and generates an annual turnover of more than £1.75 million a year; 75% of its work is under contract to council social services.

SHCA was the overall winner of the 2006 Enterprising Solution Awards, and is working to replicate its model for social care delivery across the North-East.
(www.sunderlandhomecare.co.uk/)

In section 2, Liam Black and Pauline Graves illustrate very different approaches to social enterprise and social entrepreneurship. Liam Black sets out and exemplifies an enterprise model focused on strong leadership and competition with the private sector, where you have to juggle the demands of your social values and yet be just as competitive and successful as those you want to influence or replace. Success for him is not just about pursuing values but also about mainstreaming new ways of doing things, saying: "If the private sector comes into a niche market, open up and let the service get mainstreamed – move on, create new products and services, and conquer new markets."

Pauline Graves, on the other hand, shows how you can successfully address the need for satisfying, non-hierarchical jobs that also benefit communities. "We might be the founder members, but we are just cogs in the wheel of our business." Her vision of enterprise is quality of life for all, engagement of users on a par with employees, and therefore a clear commitment to equality of power and opportunity, without sacrificing professionalism and outcomes.

With the rise in the political importance of climate change, we must also recognise that there is an implicit inclusion of the term "environmental" in social enterprise. Many organisations and the government say "social and environmental" when describing the outcomes of social enterprises. We have to be careful to note that this language betrays a fundamental hierarchy. It subtly implies that enterprise and economics come first, then social values (or that they are equal in value) and below these come environmental concerns. Again, our language may be obscuring reality and downplaying innovative ways of doing things.

It is perhaps most useful to see social enterprise as a concept that can apply to a greater or lesser degree on different dimensions. Every culture agrees that a certain shade of red is red and uses a term for this in their language. But where red shades into pink or purple, and how or whether those other colours are labelled, vary from language to language. Children learn how to speak by attaching words to their evolving concepts, so that everything with four legs might be called a "chair" to begin with. Over time, other dimensions and distinguishing features are added to the concept and usage of the term "chair". But some chairs are still more "chairy" than others, and there is agreement across cultures on the reddest red. Evers and Laville make the point that, in Europe, social enterprises are hybrids developed according to "a range of principles including democratic participation, co-operation with users, professionalism, or closeness to civil society"[7]

There is diversity in social mission just as much as there is in ways of organising finance and people. Some social enterprises operate in mainstream markets for a social purpose. Others are primarily dependent on public-sector contracts. Yet others operate in markets or address issues where it is harder or virtually impossible to generate profits or break even, and they have to cross-subsidise from other, more profitable, activities.

In general, there are different ways to look at what social enterprises aim to do and how they actually do things. For example, they can:

• focus on the nature of the market and change the way things are produced or how different kinds of people can fulfil their needs;
• be concerned with the future development of entire local areas and people who are struggling to engage with the mainstream;
• be concerned about appropriate ownership and/or the experience of work itself, either

7 Evers, A and Laville, J-L *The Third Sector in Europe* (Edward Elgar, 2004)

for all, or for particular groups such as the disabled;

• engage users and/or participants in appropriate ways in order to both empower people, create the best response to need and increase legitimacy.

All these dimensions could be present at the same time or could be present to a greater or lesser degree.

In essence, the primacy of social mission and values as well as self-reliance through trading is the "drag anchor" of any activity. Nigel Kershaw says that "the key thing for social enterprises is fusing the financial and social objectives. It is where they overlap that you get the 'hum'. You have to live with the contradictions. Don't try to solve them: you can't."

Because of the difficulties of clearly differentiating social enterprise from voluntary and community organisations and because several policies were relevant to both, the government reorganised existing policy relationships to unite the two under a broader Office of the Third Sector in the Cabinet Office. The government sees the third sector as including voluntary and community organisations, charities, social enterprises, faith groups, co-operatives and mutuals.[8] This is not a definition, but rather a description of organisational types that can sometimes be used as descriptors for the same organisation. For example, you can be an exempt charity, a social enterprise, a co-operative, and be informed by faith, all at the same time. This focus on the third sector has led to specific work on public service renewal, often addressing shared issues across the wider third sector, and to understanding its role in social and economic renewal to inform the comprehensive spending review.[9]

It is also important to realise that many social enterprises are not single entities but complex group structures that may involve different organisational and legal models, such as the Big Life group run by Fay Selvan – "social businesses and charities working together to change the world; to illustrate a new way of doing business and provide support and opportunity for people to change their lives".

8 For further details of the Office of the Third Sector see: www.cabinetoffice.gov.uk/thirdsector/
9 The Office of the Third Sector brought the work of the Active Communities Unit, in the Home Office, which covered the voluntary and community sector, volunteering and giving, together with that of the Social Enterprise Unit, originally housed in the Small Business Service, part of the Department for Trade & Industry. The office says that it will also work closely with HM Treasury's Charity & Third Sector Finance Unit on tax and public spending, the Department for Communities and & Government on "local government issues and embedding the role of third-sector organisations in communities and decision making" and the DTI on "its promotion of enterprise and its objective to create the environment for business success".

What the government has done and what needs to be done

The current government set up a Social Enterprise Unit within the Small Business Service, part of the Department of Trade & Industry. In 2002 the unit produced its first strategy, and last year, as part of the new Office of the Third Sector within the Cabinet Office, it produced its *Social Enterprise Action Plan: Scaling New Heights*, supplemented by a specific action plan on partnership in public services.

The action plans include welcome measures to:

• increase the promotion of social enterprise, particularly among young people;
• make over £18 million available to break down barriers to growth for social enterprise;
• provide additional funding to regional development agencies (RDAs) to improve the provision of appropriate business support for social enterprise;
• encourage the formation of appropriate networks;
• make up to £10 million available for investment in social enterprises;
• explore how community investment tax relief and other incentives might be improved;
• tackle barriers to the use of social clauses in public contracts;
• overcome barriers to social enterprises delivering public services, including implementing a training improvement programme for key commissioners and developing new frameworks for delivery and performance;
• build the evidence base on the social, economic and environmental value of social enterprise;
• implement the £30 million Community Assets Fund and deliver on the recommendations of the Quirk review on community ownership and management of assets;
• commission a study on the specific skills needs of social enterprises, and whether such needs are currently being served.

The Social Enterprise Coalition gathered the views of social enterprise on these proposals.[10] They believe that:

• government should incorporate social enterprise into all strands of business policy, and better integrate social enterprise into policies, corporate plans and work streams of departments and agencies;
• appropriate interventions are required to ameliorate the problem of patchy and

10 Responses to the social enterprise action plan can be found on the Social Enterprise Coalition website: www.socialenterprise.org.uk

under-resourced business support for social enterprise, which will be helped by RDAs ensuring strong linkages between mainstream and specialist providers to deliver appropriate support to social enterprises;

- national representative bodies for social enterprise under the umbrella of the Social Enterprise Coalition should work in partnership with government and existing research bodies to develop the evidence base on social enterprise;

- the right mix of research, guidance, skills development and pilot projects is required to use social clauses or other means to incorporate social or environmental benefits into public service contracts and promote joined-up solutions;

- social enterprise should be embedded in the forthcoming training improvement programme for key commissioners, new public service delivery and performance frameworks, and other actions;

- the government should develop clear guidance on the Gershon principles of public service efficiency and take practical steps to reverse the trend for ever-larger public service contracts. It needs to recognise that better outcomes do not have to be more expensive and the longer-term interest of diverse competition will not be achieved by having fewer and larger providers;

- where appropriate, the government should enable social enterprises to emerge from the public sector by raising awareness of social enterprise models and promoting their uptake, addressing barriers to the creation of new enterprises, and providing appropriate support for groups considering new approaches;

- the £10 million to pilot new approaches to investment in social enterprise is welcome, but the government should go further to capitalise specialist funds for investment in social enterprise by enabling and adequately resourcing a social investment bank, helping community development finance institutions to operate at scale and extend their lending capacity, and conducting a feasibility study into the development of a social stock exchange;

- finally, while the government should be applauded for exploring tax incentives on investment in social enterprises, many in the sector believe a wider review is required into tax relief on the profits earned by regulated social enterprises that are used to further social and/or environmental purposes.

The government is clearly doing a lot and is engaging in on-going dialogue about the needs and scope of social enterprise. It is important to allow time for changes to embed and prove their impact. However, current policy approaches need to be broadened to achieve their full potential.

Better understanding of the third sector and social enterprise internationally
The incorporation of social enterprise into the Office of the Third Sector is sometimes seen as denying its focus on business. However, a recent book, *The Third Sector In Europe*, by Evers and Laville, shows that the history and development of this space in Europe has been more sociological and political, involving changing and different conceptions of the nature of the state and the individual, and the concept of self-reliance, as well as alternative views of the "economy".[11] The third sector is not just about goods and services, but also about political and social co-ordination.

The authors' aim is to create a common framework to unite the traditions of voluntary and non-profit organisations with those of co-operatives and mutuals. They argue that this can be done by recognising a plural approach to economics that includes voluntary time or sweat equity and gift resources, and sees the space as intermediary between the market, the state and informal communities. Social enterprises, particularly, are seen as hybrid organisations that fuse the two traditions and create new spaces between the public and private sectors and civil society.

There is clearly a need by government to further explore social enterprise internationally and to understand better the different ways in which it can be understood in different contexts and in its many different forms.

A conference paper for the IESE Business School conference, titled *Social Entrepreneurs as Competitors & Partners in Global Markets*, claimed that social ventures (of all kinds, not just social enterprises) can contribute more to achieving the UN's Millennium Development Goals than can conventional businesses since they develop social as well as economic capability. One example is shown in the box.[12]

Project Impact and Aurolab

Project Impact
Project Impact aims to make medical technology and healthcare services (such as low-cost hearing aids and other basic medical technology) accessible and affordable to those in the developing world, as well as to be self-sustaining. It was established by David Green,

11 Evers and Laville, op cit
12 Mair, J and Seelos, C *What Can Companies Learn from Social Entrepreneurs?* (2005), a paper presented at the IESE in Barcelona in collaboration with the European Academy of Business in Society on 19 September.

who is a fellow of Ashoka and the Schwab Foundation and a MacArthur Fellowship (or "genius award") winner. As an American, he speaks of setting up "non-profits", but the social enterprise nature of what he is doing is very clear. For example, he produced a hearing aid at US$51 instead of US$1,600 and used a tiered pricing model to ensure that all those who cannot pay do not have to, while those who can afford to, do so. Green believes that this model can save government health services large amounts of money.

Aurolab
Aurolab, which was also founded by David Green, is a manufacturing organisation in India established in 1992 and linked with the Aravind Eye Hospital. It produces affordable, high-quality intra-ocular lenses to treat cataracts and is seen by David to be an example of "compassionate capitalism". Up until 2005, 47% of its patients were too poor to pay anything, but Aurolab still achieved a 60% profit margin to enable it to build capacity and replicate in other countries. It does this partly by reducing marketing spend. (aurolab@aurolab.com)

Raising awareness
Many of the contributors to this publication see raising awareness of social enterprise as a core issue. Richard Kemp believes that increasing understanding of what social enterprise can do is critical in local government and for all those involved in delivering the public interest. Pam Alexander notes that consumers need to increase their understanding of all the different options (social enterprise or wider third-sector, local authority, mainstream business) and their impacts, in order to exercise a more demand-led approach to service delivery.

The current social enterprise action plan focuses primarily on young people. It is, however, clearly important to increase this awareness across the country with all kinds of people and in all kinds of activities.

Going beyond the national
The focus of much strategy has been on national government, with specific policies being dropped down to the regions and with some activity slowly taking root at local level. Much greater effort is needed within local authorities to understand and embed social enterprise, as well as for central government to enter into supranational debates within the EU, with other countries, or with the UN to build on the potential of social enterprise and social entrepreneurs.

Finance
There is now increasing interest in forms of finance that address unique issues facing social enterprises – those of maintaining mission when engaging with external investment, or having little collateral or track record to develop assets or access loans.

The main problem has been the lack of evidence on which to develop any real understanding of appropriate instruments. The focus has predominantly been on attracting finance into the sector, with much less attention paid to the extent and nature of demand and what is the best way to bring supply and demand together.

In 2007 the Office of the Third Sector is undertaking a review of finance among third-sector organisations. However, its conclusions and recommendations should guard against the tendency to focus on supply-side solutions. Without an understanding of demand, social enterprise will not want to, or will be unable to, develop and grow. Nigel Kershaw argues that: "You need to look at this question from the borrower's point of view, not the supplier's." He argues that BIGinvest creates appropriate financial packages first and then looks for the supply that can respond to this demand and is willing to engage on its terms.

What are the general lessons that government can learn from social enterprise?
The hybrid nature of social enterprise and the need to balance the tensions of the social, economic and environmental, appropriate participation, empowerment and financial sustainability, mean that there needs to be more awareness of how diverse social enterprises can inform government's activities.

Democratic renewal
The move towards more local government and governance requires an increased understanding of how different governance models work, their tensions, and how these can be balanced with broader public and social interests. A study of different kinds of social enterprises that are already attempting this balancing act will begin to shed light on what does and does not work in different contexts.

Social enterprises can also throw light on how best to structure the governance of out-sourced, independent or semi-independent public bodies. These kinds of approaches aim to reconcile the tensions between direct and representative democracy. Paul Hirst argues for a similar concept of "associative democracy" through which he offers new forms of economic and social governance by democratising and empowering civil society, placing political responsibility and governmental tasks in the hands of

people.[13] Hirst's thoughts echo those of David Miliband in his essay "Power: A New Agenda for the Centre Left", in which he writes that "we need to give citizens more 'voice' – more opportunities for residents to express their views and give them more influence".[14]

Market regulatory and incentive frameworks

The social and environmental activities of successful social enterprises may also provide insights into how frameworks, legislation, or voluntary agreements can work to encourage markets in a more socially or environmentally oriented direction.

Empowerment

Empowerment is an understudied but core aspect of many social enterprise activities. One of the key differentiating dimensions of social enterprise versus a more traditional view of charity is that it is about self-help and self-motivation. Many social enterprises require and enable the engagement of different people and groups in society as well as creating empowered individuals. Nigel Lowthrop points out: "Empowerment can allow poor communities to trade their way out of problems, rather than remaining the recipients of highly directed funding." He also shows how engagement in activities within Hill Holt Wood, the social enterprise that he founded based around a small woodland, can build the confidence and skills of young people.

Lowthrop also illustrates how critical the buy-in and engagement of the community is to the success of his project. "By acting in an *open* and *transparent* way with *justice* we have achieved *trust*." And: "Communities quickly understand what will make their environment a better, safer and more open place. Communities take the long view and often are prepared to take great leaps forward …"

Development trusts act similarly. Glenn Arradon argues that "bottom-up solutions to area-based regeneration" deal with the problem that "top-down attempts to 'empower' communities all too often disintegrate into endless frustration and bitterness, meaningless consultations and a culture of opposition and conflict".

Empowerment is linked to the decrease in deference in society and hence a more entrepreneurial and self-help culture. The new debates over "well-being" and the "good society" are linked to "empowered" people. Curiosity and self-confidence have been shown

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13 Hirst, P *Associative Democracy: New Forms of Economic & Social Governance* (Polity Press, 1994)
14 Miliband, D "Power: A New Agenda for the Left" in *Public Policy Research* (IPPR, 2006)

to increase engagement in the community as well as increase health and longevity.[15] Debates on the good society focus on different kinds of work, tolerance and respect.

Again, these arguments are similar to, and provide some solutions to, David Miliband's challenges to find responses to the "frustrations that people experience ... from a lack of control they have over the decisions, processes and institutions that affect them". And that they demand "more choice, control and respect" with their "higher expectations and more diverse, complicated needs". He asserts that there is a need to engage people in design and delivery of services, to increase opportunities for "voice" and to disperse power.[16]

Public-sector management techniques and employee incentives
The need for public service renewal is not just about appropriately engaging users. We know that there are many examples within social enterprise, and within the broader third sector, where user empowerment has been implemented and where it has improved outcomes for people. But we have been less focused on understanding the nuts and bolts of how to manage, lead, structure and motivate organisations where it is necessary to balance efficiency with social mission and the quality of outcomes.

The new managerialist approach to public services may have had some successes but it has equally had failures, precisely because it was taking a decontextualised vision of private-sector management and applying it to radically different motivations and goals. It may be useful to look at successful social enterprises and further investigate how management techniques and incentives can be better understood and put into practice.

Community cohesion
Community cohesion is about people who are in many ways different respecting each other and doing activities together. There is a need for government to work with social enterprise to understand better how these outcomes can happen, and how they can be further enhanced and factored into the design of existing and future social enterprises.

Glenn Arradon sets out a range of ways in which development trusts have evolved to address the need to build bridges in the community, focusing particularly on examples of engaging different ethnic groups.

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15 See for example: New Economics Foundation *The Power & Potential of Well-being Indicators: Measuring Young People's Well-being in Nottingham* (2004)
16 Miliband, op cit

What is the relationship of social enterprise with other sectors and what are the implications?

In the 2001 *Value-led, Market-driven* report, a diagram illustrated the relationship between existing sectors and social enterprise.[17] This diagram is simplified and repeated below to illustrate the kinds of relationships and drivers that this way of looking at things can highlight.

Figure 1: Diagram of a sector approach to organisations, showing the overlaps between different concepts
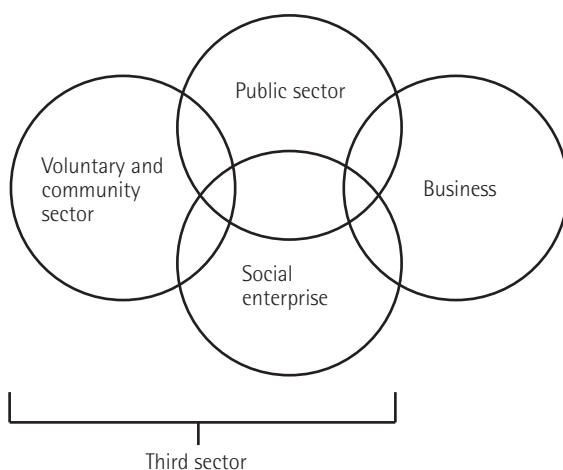
In this way of looking at things, social enterprise is found at the interface between what are known as the voluntary, business and government sectors and overlap with them. We could see the whole of the voluntary and social enterprise sectors as the "third sector".

It is clear from this diagram that there are no simple differences between sectors and that they overlap considerably. Indeed, it is at these interfaces that some innovative and challenging models are being created. We know that it is not always easy to differentiate the "voluntary" sector from social enterprise, particularly since the former has always involved forms of self-help and earned income.

17 Westall A *Value-led, Market-driven: Social Enterprise Solutions to Public Sector Goals* (IPPR, 2001)

Both the real and perceived difficulties in thinking through the concept of social enterprise has led to confusion between different central government departments, regional government and local government when trying to articulate and deliver policies. For example, a range of recent initiatives variously referred to "the voluntary and community sector" where social enterprise was included under that definition. When Futurebuilders was set up, it defined the "voluntary and community sector in the widest sense as covering charities, voluntary or community organisations, social enterprises, industrial and provident societies, community interest companies and other non-profit distributing organisations". Politicians need to draw rings around activities in order to apply specific policies, or look at trends, or be able to clearly pass on policies to those who have to implement them. It was partly for this reason, along with the potential for creating better and more inclusive policies, that the Office of the Third Sector was set up.

However, it is worth repeating that social enterprise is really more like a concept with fuzzy edges, which as an attribute you can have more or less of, on a variety of dimensions, chiefly motivated by different social and environmental values and trading in markets.

Social enterprise and mainstream business
While much attention has been paid to the relationship of social enterprise with the voluntary and community "sector", much less effort has been made in looking at the relationship with "mainstream" business, even though the government has given assurances that social enterprise business needs should be met.

The need to create tight, excluding definitions leads to this lack of focus. There was much understandable debate about whether or not large co-operatives or mutuals should be included in the ambit of social enterprise when the Social Enterprise Unit was set up. If we were to adopt a more European perspective, which allows limited profit distribution, then it is likely that there would not have been such a problem.

This lack of attention, and focus of social enterprise primarily on regeneration and public service delivery, is also why some large social enterprises may not always call themselves such. There are organisations that say they balance profit making with social mission and may prioritise the two in different ways. They take a variety of names: for example, "ethical business", "alternative business", or even "mission-oriented, profit-maximising".

Ben & Jerry's or the Body Shop are clear examples of socially oriented companies whose

take-overs provide a test case of what happens when different principles collide or when missions are not locked in. But this locking in, demanded for example by asset locks in the new community interest company (CIC) and by capped profit sharing, may prove limiting if there is a need to mainstream more social behaviour among all businesses. There are already challenges to the CIC regulator from social enterprises that want to do things in ways not previously considered.

Ed Miliband, the new Minister for the Third Sector, has argued that social enterprises challenge the private sector.[18] They can act as benchmarks for socially and environmentally responsible behaviour or, as Liam Black suggests, show the viability of ways of doing things which are then taken over by the mainstream. In the media coverage of the recent retirement of the chairman of the John Lewis Partnership, the business was called unique. But if we truly understand the range of existing business models and expand what is possible in organisational and therefore market structures, is it really?

Social enterprise and government
There is a lot of activity around public procurement, precisely because social enterprise is seen to combine efficiency with social goals that are similar to the public interest or public values.

There are particular debates and discussions around the "added value" of social enterprises in different kinds of public service activity, showing the necessity of social enterprise proving its worth, developing appropriate measurement techniques and going beyond anecdotes of success.

Fay Selvan and Richard Kemp both articulate issues that need to be addressed as part of these on-going discussions.

Richard Kemp looks at this agenda with the eyes of a local councillor, bringing a dose of realism into debates that have often taken place at a national level. He notes that there needs to be a great deal of understanding among local officers and elected councillors, since: "Quite simply the message is not getting home to members and officers in local government."

He points to the ways in which social enterprises can do things that the public sector

18 See for example his article in the magazine *Social Enterprise* (3 August 2006)

cannot by bringing "together a series of outputs and actions that are normally held with-in separate silos of a local authority" and gives an example where two social enterprises "needed to work with 13 different budgets from seven different organisations". This kind of example illustrates the challenges for local authority procurement as well as stressing the fact that social enterprises themselves need to be engaged in the "debate with the public sector early" before the contracts have been designed.

Our brainstorm led to a variety of views on how to deal with procurement reform, including the need to involve the informed citizen more in decision making. There was unanimity that many procurement officers (erroneously) believe, as a result of the Gershon review, that large procurement contracts are the only thing that matters. There has also been a tendency to rank organisations as being most effective because they have the highest turnover. Another issue is to be able to measure the different impacts that are being made by social enterprise and ensure that these are paid for.

It is important to recognise that this debate is not just about public services but also about the role of social enterprise in providing goods and services that government needs to fulfil its roles, whether that be back-office services or equipment. It is also about the correct role of government in promoting and supporting the social behaviours or activities that it wants to see in society and that enable the fulfilment of its policy goals. This goes beyond procurement and could include, for example:

• tax breaks for certain kinds of positive activities or the availability of on-going grants;
• start-up support or asset building to underpin the development of sustainable organisations or activities.

Breaking down social enterprise
It does not make sense just to see social enterprise as a homogenous entity. We can break down our analysis and understanding in different ways. That could happen along business sector lines, or through types of social enterprise, or through social or environmental activities across the third sector. For example, leisure trusts, elderly care and childcare have been treated separately, as have the needs of co-operatives or those social enterprises that take on charitable status, or specific kinds of social enterprise such as social firms or development trusts.

Are we talking about a sector?
The implications of the previous discussion throw up the difficulties of seeing social

enterprise as a separate sector. If we accept its hybrid nature, perhaps social enterprise is about reconfiguring hitherto divided principles and spheres of action. This is why many of the contributors to both this publication and the brainstorming have spoken passionately about social enterprise as way of doing things or even of a movement.

There may be some interesting partnerships in future in order better to meet some public service goals. Pam Alexander believes that "social outcomes are best achieved through the collaborative working of existing and aspiring social entrepreneurs in all three sectors – public, private and the third sector. Supporting cross-sector networks of social entrepreneurs is the need in future …" She sees social entrepreneurship as being the catalyst for cross-sectoral activity in the public interest.

Balancing economic, social and environmental needs

Social enterprises and social entrepreneurs begin to show how else we might look at and structure policy.

For example, Pam Alexander points out that European legislation on procurement asserts that competition must be open to providers from all EU countries and certain kinds of providers should not be preferred except in special circumstances. There is a current European debate on services of general interest – those that are excluded from competition law because they fulfil a public service. Pam Alexander notes that a barrier to social enterprise development is that of "the lack of clarity about whether investing and supporting social enterprise contravenes European anti-competition law". Another area for clarification is that of state aid, particularly for those social enterprises that are not in areas of clear market failure but want to "deliver services in a more responsive and ethical way (such as health and social care)".

She is exemplifying the point that economically justified proposals such as high levels of open markets and competition with minimal state intervention may clash with other social or environmental goals. Rather than just seeking exemptions or seeing the social and environmental as marginal, perhaps we need to re-look at policy formation so as to better reconcile the economic, social and environmental, rather than dividing up policy between the three. Supporting social enterprise also requires that simple justifications for policy action may not just relate to "market failure" (with its implication that the textbook view of the market is the best of all possible worlds) but also be about accentuating and supporting the positive aspects of social and environmental activity. For example, arguments by this government for the idea of Enterprise for All also cite the principle of

equality as being behind their interest and policies.[19]

For example, we could reconsider the primacy of a mainstream view of economics, extend our understanding of what this term means, and balance it with social and environmental imperatives in policy, private action and organisational structure. It may be that rather than finding exemptions to anti-competitive practices, we have to rethink the way in which we discourage monopolistic behaviour and encourage positive actions, measuring success in a different way. The East Midlands Development Agency and Yorkshire Futures are looking at alternative ways to measure successful economic activity beyond narrow conceptions of productivity and growth.

We could also reconsider how our tax and legislative system supports or encourages market behaviour that acts in our broader public interest. Rather than considering specific tax exemptions, for example, for legal statuses such as charities or for all social enterprises, we may want to consider rewarding certain types of positive social, economic and environmental activity undertaken by all kinds of organisations. In this case, it should be easier for social enterprise to work in these more supportive frameworks and for social enterprise values and social entrepreneurial instincts to be spread throughout society.

Some social enterprise governance models and networks may also suggest new forms of international governance that combine economic, social and environmental concerns with different ways of engaging people. This will be particularly useful where we currently have silos of economic, social and environmental activity that at best are dominated by economic considerations, or where, at worst, aims and outcomes come into conflict. Perhaps, this reconfiguring of policy needs to extend to exploring new ways of dividing and connecting central, regional and local government.

The contributors in the next section see these broader issues from different perspectives and also comment on specific areas: enterprise, public procurement, skills and support, empowerment and community cohesion and finance.

19 For details of this concept, government's responses and how it relates to social enterprise see: Westall, A
Enterprise for All: Progressing the Agenda (Enterprise for All Coalition, 2006)

Section 2

Views on what needs to be done now

Enterprise

Liam Black and Pauline Graves illustrate the opportunities, tensions and different strategies involved in running diverse social enterprises. Liam Black illustrates the model of the "heroic" individual, by no means isolated but tough and uncompromising about meeting his social mission. He asks whether social enterprise is "a brief flowering under the (currently) benevolent sun of New Labour or a deep shift in the guts of the economy".

Pauline Graves shows a completely different strategy and rationale for social enterprise, one that is just as focused on outcomes but equally on the process, the experience, the equal participation, and the appropriate distribution of economic returns. "We all own this business; we all have pride in what we do." They never forget that "the kettle is always on and the biscuit tin always there".

Liam Black, Director of the Fifteen Foundation

The Fifteen Foundation

The Fifteen Foundation exists to inspire disadvantaged young people – homeless, unemployed, those overcoming drug or alcohol problems – to create careers in the restaurant industry. It is funded by profits from the Fifteen restaurant, which trains disadvantaged young people and provides opportunities to learn about the hospitality and catering industry through training and practical experience. College learning is supplemented by real-world experience in top restaurants such as The Ivy, Le Gavroche and Fifteen. Trainees also meet food producers, farmers, vineyard owners, and salt makers, to create a passion for great food and respect for the environment. The Foundation wants to build Fifteen into a global social enterprise brand inspiring young people all over the world. www.fifteenrestaurant.com

So, you're a social entrepreneur? I hope your exploits are already changing the world. I thought I'd give you a summary of my thoughts on social enterprise – just to remind you how challenging, frustrating but ultimately rewarding it can be.

Just remember that social enterprise is a state of mind, a passion about achieving the treble bottom line of financial, social and environmental profits. If yours is a true social business in a real market, expect tough competition and sometimes to fail. Just go for it! Passionate determination, they say, is what sets apart those who can turn their ideas into profitable and revenue-generating businesses from those who just talk about it.

Never forget that it is simply untrue that entrepreneurs take big risks. Successful entrepreneurs are brilliant at reducing and managing risk. They spot great ideas and enlist the right people to make them happen. Picasso said that great artists never copy – they steal. All my social enterprise heroes have taken ideas and made them uniquely and successfully their own.

Hold on to your vision. Sustain a culture of ambition and creativity at the same time as dealing with the relentless, knotty frustrations of keeping a business on the road. Dream of a changed and just society and respond to the hard-faced markets which don't care about those dreams.

Keep one step ahead of the competition. You have to, and you can. If the private sector comes into a niche market, open up and let the service get mainstreamed – move on, create new products and services, conquer new markets. But remember that it's not easy. Salaries and rent must be paid each month. Cash for innovation is tight. Real competition from private businesses with no agenda other than increasing shareholder value holds a blowtorch to your social objectives. The space to balance the inherent tensions within the social enterprise business model can get burned off and you are left with some very tough choices.

Justify the difference
How can you justify the difference you passionately believe in to next door's owner-manager struggling to pay his 20 staff every month without the help you might be getting? Can you demonstrate that your social business will be adding a different sort of value to the neighbourhood? That you will be taking on unskilled labour that he won't look at and getting products and services into a large part of the market he is not reaching?

One way to deal with this is to get your social audit in place. It takes time and costs money but it will keep you honest and will allow you to look your neighbour straight in the eye. If you believe you are better than the private or public sectors, prove it. Keep looking to the future. It's about the excitement of new challenges and boldly taking the Starship Social Enterprise where no one has gone before.

But would you be so courageous if your back was to the wall? In that position, what, if any, social objectives can be put to one side to ensure financial viability, so you can pay the rent and fund the payroll?

In the end, trust your instinct and, right or wrong, jump into the future and make the best of where you land.

You will need allies and partners. Partnership is about mutually rewarding deals whose results are greater than what we can do apart. Real partnership leads to positive and unexpected results, not a diary clotted with tedious meetings. If your business is real – real products being traded in a real marketplace – and is making a verified impact, say, in the lives of excluded people, then you will attract genuine partners.

I know this sounds difficult, but don't forget to laugh or look around you at the fantastic people running some terrific social enterprises in really tough circumstances: real business ideas creating social and financial wealth. You will know them when you meet them. Just know when to move on, make sure the business is not dependent on you, and make the formation of a brilliant management team your priority.

The spotlight is turning on social enterprise
I sense that we are fast approaching the high-tide mark of interest in social enterprise. The legitimacy of its claims will be increasingly challenged. That is a good thing. Is social enterprise a brief flowering under the currently benevolent sun of New Labour interest, or a deep shift in the guts of the economy? One big miss in our "sector" is how the social enterprise debate is disconnected from what is going on in the private sector around corporate social responsibility.

Much great work has been done to create the broad front of "social enterprise" to engage with policy makers. But the truth really is that what we call the sector is hugely diverse and many of us have little in common with each other apart from the fact that we are not privately owned.

The vast majority of social enterprises are small, local affairs, employing a few people, living hand to mouth. But if social enterprise is to move out of the margins then we need much larger social businesses competing with each other and the private sector, demonstrating the logistics and financial capacity to operate throughout the country.

In all processes of change there will be periods when the rhetoric is some way ahead of the reality. The key question is how quickly can social enterprise grow? We need to attract the best from all sectors into the messy, difficult, exhilarating, scary and deeply rewarding social enterprise adventure.

We have to champion social entrepreneurs and give them what they want, when they want it, in the ways they want it. We need an explosion of creativity and new ideas. We need risk taking, big dreams, paradigm-shifting ambition. We need organisations to contact social enterprises directly and ask: "What is your biggest problem right now?" Simple, specific interventions that hit where it hurts, quickly.

As a social entrepreneur, your job is to hold the space for all these hopes, aspirations, fears and competing agendas and to find that route to a new future. Keep going with all your social business adventures and good luck.

Pauline Graves, Shepshed Carers

Shepshed Carers
Pauline Graves and Sarah Sanders founded Shepshed Carers in Loughborough in 1994 as a workers' co-operative. Their mission was to provide high-quality care in their own homes for the elderly and others with high-dependency needs. Shepshed Carers now has 90 workers/members and a turnover of over £900,000, providing over 1,300 hours of care. Users cite the services as high-quality and reliable, and their families receive high levels of support and piece of mind. Co-operative members receive good pay and conditions as well as on-going training to develop their skills and abilities. Local authority contracts account for 80% of Shepshed's work. Their reputation has led to a number of organisations across the country approaching Shepshed Carers to improve their own caring practices.

Cast your mind back to what you were doing 13 years ago. My friend Sarah and I were standing in a dole queue, feeling fed up, degraded and unwanted. We had both been made redundant from our respective jobs – Sarah from her office job and me from the care home I was working in. Neither of us had any qualifications or much hope of finding employment. It seemed we were two mature women on the scrapheap.

Over endless cups of coffee at my dining room table, putting the world to rights, we decided to do something about it.

We were both in the St John's Ambulance Service and were used to working in our community, so why not go one step further? We had a friend who was a district nurse and over more cups of tea she told us there was a shortage of carers. After a phone call to our local social services, we were on our way.

We were interviewed and sent on a three-week course. One of the people we met was Dorothy Francis, manager of the then Leicester & County Co-operative Development Agency (CDA), who talked about co-operative methods of working.[20] We were interested and explained to her that all we wanted was to help in our community, earn a living wage and not exploit anyone. She agreed to help us – and still does when needed.

We contacted our local doctors and nurses and told them we intended to set up a carers' business. They were very supportive and offered to help. It was difficult going to all the old-folks clubs and haunts and talking to everybody, but the sore throats and feet were worth it. The work was out there. In February of 1994 Shepshed Carers was born. The dining room table was the office and Sarah and I were back in work.

The work came in and soon there was too much for just two of us. We talked to our friends, who became interested, and then there were six of us, then 12, then 20. By now we were being asked to do personal care as well as cleaning and shopping. We needed to be trained in all aspects of care. Our friends the nurses gave up their free evenings to train everyone. Social services asked us to tender and accepted us.

Naturally, we encountered problems. My dining room table was not big enough and we needed office space. We found a couple of rooms in the centre of the village in an old building that was previously used as co-op offices. At times we had cash flow problems and carers' wages still had to be paid, so Sarah and I put some of our own money into the business to keep us afloat.

Hitting the obstacles

Then we had a complaint from social services. Our carers were not reading the care plans. A meeting was held with two managers from social services. They suggested we were not professional enough and we were getting too involved with our clients. However, they did think that as a co-op we had good ideas. It was decided that we could look after our existing clients, but we would be suspended from taking on new clients for three months. That woke us up with a jolt. We had to sort ourselves out and become more professional. We did, but there were other obstacles along the way, including the taxman …

We were all self-employed and it was working well. We charged our clients a set rate, which paid our wages and for every hour we worked we paid £1 into the co-op. However,

20 It is now called the Co-operative & Social Enterprise Development Agency (CaSE-da): www.case-da.co.uk

social services could only make payments to Shepshed Carers, not to individual workers. Sarah oversaw the payroll, but we kept getting calls from a man at the Inland Revenue. We explained that we were self-employed and we paid any tax due. Dorothy from the CDA supported our cause, but to no avail. After weeks of trying to reason with him, we arranged a meeting.

We all had mental pictures of this horrid man. Sarah and I arrived in plenty of time, determined not to be bullied by him and determined to remain self-employed. And then, in walked the Inland Revenue's secret weapon. This gorgeous hunk of a man with eyes you could kill for! We sat there with open mouths, resolutely agreeing with everything he said.

Fortunately, he proposed a compromise that was easy to achieve. Our private clients could continue to pay carers directly, but we would have to go on PAYE for all our social services clients. Thankfully, Sarah had payroll experience and with Dorothy's help we overcame that problem.

Becoming established
Slowly we built up our business, with more carers, more clients and more office space. Our interests are now spread over three different companies, with new operations in Loughborough and Coalville.

We have a large office suite in the centre of Shepshed. There are three managers looking after their own districts, team leaders who help them and training facilities that are the envy of many. We gained our Investor in People status four-and-a-half years ago and have passed and been registered by the Care Standards Commission.

We hope to continue to grow and provide help and care to the elderly and disabled people in our communities. We are working with a small group in Leicester who want to run a care group like ours. They passed their Care Standards and have now been trading for a year. Hopefully we can help to set up other co-operatives like ours.

So why have we been so successful? We work hard, with immense job satisfaction, and we stay true to ourselves. Sarah and I might be the founder members, but we are just cogs in the wheel of our business. We listen to everyone and take on board what is said. We have regular meetings with our members, and managers have meetings with their groups. All of us have an hourly rate of pay, no one is on a salary, and we make decisions through one member, one vote.

Every one of our members is important to us and our office doors are open to all. The kettle is always on and the biscuit tin always there. We are here to provide care for our community. I think we achieve this. We all own this business; we all have pride in what we do.

Public procurement

Most debate on public procurement happens at a national level. Richard Kemp, a Liberal Democrat councillor, outlines what needs to change at a local level to enable social enterprises to achieve: "our prize ... value for money and innovation in service delivery". Much of this change is cultural, centred on attitudes, understanding and championing. He also believes that: "Social enterprise is an idea whose time has come, but without careful thought and assistance its time might soon go again."

Fay Selvan argues for profound changes in procurement practice, particularly in the scale of contracts, and is concerned that the public sector is "more likely to risk maintaining the status quo of unequal provision of health, childcare and employment, than it is to risk giving a contract to a social enterprise provider".

Councillor Richard Kemp, Liverpool City Councillor and Leader of the Liberal Democrat Group in the Local Government Association

Getting the message home

Sometimes trying to spread the idea of social enterprise is like banging your head against a brick wall. The benefits seem so obvious to me and probably to most readers of this book that I cannot understand why others fail to see them. Spend £1 with a good private contractor and, if you are lucky, you get £1 worth of service. Spend £1 with a social enterprise and you get £1 of service, 10p of social inclusion and 10p of environmental activity, and the profits generated re-circulate within the local community.

A number of key issues are drastically reducing the potential of the sector. For example, not all politicians are convinced of or even understand the extra value that social enterprises can bring. Sometimes this is just ignorance. Even worse, some have come up against poor social enterprise providers or providers who pretend to be social enterprises but are as staid and stolid as the organisations they hope to replace.

For every traditionally minded public-sector official, there are two who seek to stop the growth of social enterprises because they challenge the concept that services are provided by either the public or private sector. The sterility of the debate on procurement is amazing. I find it hard to judge whether this is because of inertia or a reluctance to think through new options.

Any outsourcing is seen by some members and officers as a diminution of councils' power and authority. Too many organisations still measure their worth by the size of their budget or the number of their staff, and not by the quality of their outputs or the scope and impact of their outcomes.

Service delivery officers may feel their professionalism is under attack when they encounter outsourced bodies, which usually have different styles and often use different techniques.

To get the full benefit of social enterprise you need to bring together a series of outputs and actions that are normally held within separate silos of a local authority, or – even harder – are jealously guarded by entirely different organisations. For example, two social enterprises in Liverpool needed to work with 13 different budgets from seven organisations to provide young men leaving prison with a home and a job.

Many procurement officers also lack the experience to procure from social enterprises because the procurement process can be more difficult to administer. Large-scale procurement is complex enough. Understanding the different ways of dealing with contracts for £1 million or below just does not seem worthwhile.

No one gets sacked for buying IBM! Big private-sector providers have deep pockets, a long history, and are perceived as competent (not always justifiably). Social enterprises are seen as more risky, with little fallback if things go wrong – either financially or managerially.

Too many organisations do not discuss possibilities with the public sector early enough. Trying to get a share of the action when a tender is already issued is too late. Social enterprises need to ensure that the tender specifications cover their possible outputs if they are to have a chance of proving their worth.

So, how can we overcome these problems?

Raise the debate
Quite simply, the message is not getting home to members and officers in local government. All stakeholders, including the Social Enterprise Coalition, the Local Government Association, and central, regional or local government need to work together to heighten awareness of the capability, potential reach and capacity of the sector. A small, dedicated taskforce could raise the standard of debate with all stake-

holders. Umbrella organisations should be taking a lead in this activity. For example, the National Housing Federation should carefully target its own part of the sector with clear unambiguous messages about social enterprise potential.

Improve the client role

Sector analysis needs to outline best practice in areas such as environment, housing and home care. These major public-sector budgets are under pressure and there is often a lack of imagination in service provision. Work then needs to be undertaken through relevant professional organisations such as the Chartered Institute of Housing or the Association of Directors of Social Services to ensure that social enterprise is brought into the debate. The practicalities also need to be embedded within professional examinations and training processes.

Councillors can be engaged through the Improvement & Development Agency (with a Modern Member course in social enterprise and procurement. Interested councillors completing the course could become social enterprise champions in their council, in local government, and in their parties.

Procurement professionals should be assisted with the development of sample contracts. Organisations such as the centres for procurement excellence that have been established in all regional government offices and 4ps (Public Private Partnerships Programme), with a long-standing strength in public-sector procurement, could provide specialist advice to drive up opportunity and knowledge.[21]

Improve the contractor role

Potential providers need advice, training and support. They need to know how the public sector works, who pulls the strings and who really makes key decisions. They need to know the constraints of procurement and what can and cannot be done.

Would-be contractors need to discuss long-term solutions to some of the problems that they face. Public-sector bodies are more receptive to people with solutions.

You need principal supporters. If you do not have a senior councillor, a board member or a senior officer batting for you, then you will not break through the permafrost of

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21 4ps offers comprehensive procurement support to local authorities including project support, skills development and guidance in the form of, for example, procurement packs or case studies. At present 4ps does not refer to social enterprise on its website (www.4ps.co.uk).

middle management, for whom the status quo is always best.

Sometimes a social enterprise solution could be a successful bolt-on to a bigger contract run by the private sector. Sometimes allies can be found in larger organisations like the national charities or the better housing associations, which can use their muscle and expertise in programme planning and development to help work up and implement coherent proposals.

Social enterprise is an idea whose time has come, but without careful thought and assistance its time might soon go again. We must work together to press for the adoption of social enterprise visions, the development of social enterprise tools and the implementation of social enterprise processes. Our prize is value for money and innovation in service delivery.

Fay Selvan, Chief Executive Officer of the Big Life Company

The Big Life
The Big Life group of social businesses and charities wants to "change the world. To bring about social justice for the most excluded in society – to create a new way of working and a new way of living." They work with people who have been excluded from mainstream society – due to disadvantages in terms of health, housing, education or skills – and promote the interaction of different cultures, religions, approaches to life, and people with different abilities. All the Big Life group's businesses help to create wealth and opportunities for people who are overlooked by mainstream employers: *The Big Issue in the North*, Aisha Childcaring, Northern Solutions and Big Life Employment. There are also two charities, Big Life Services and The Big Issue in the North Trust. (www.thebiglifegroup.com)

In order for public procurement to support the development of social enterprise, we first have to debunk some major myths. Social enterprises are not about doing things cheaper because they aren't required to make a profit: they reinvest their profits. All businesses need to make a profit and any market that relies solely on cost cutting at the margins will be inherently unstable and provide variable quality.

Unfortunately, many of the service businesses that have been contracted out from the public sector fall into this category. Jobcentre Plus contracts specifically exclude creating

profit in their tendering programme. There is no margin for error. Any underperformance leads to an immediate loss. If the government is serious about developing new markets, it needs to allow stable businesses to grow. It would not expect a private company to take such risks without paying for them. Public procurement needs to be about commissioning services in a businesslike way – in order to develop a market that provides innovative sustainable solutions.

There has also been a growing trend, since the Gershon review, to achieve economies of scale by commissioning larger and larger contracts. All the Jobcentre Plus contracts are now commissioned at a regional level and in the latest round nearly all contracts were given to large national organisations. The commissioners believe that the larger businesses will subcontract to the smaller organisations. The reality is that this subcontracting process means the opportunities for full cost recovery for smaller organisations are virtually non-existent.

Within the National Health Service there has been much rhetoric about opening up the market to social enterprise, but the reality has so far been very different. The Department of Health is procuring nationally for GP facilities in areas where there are not enough doctors, and the Local Improvement Finance Trust capital development programmes have restricted opportunities for local commissioning. These procurement routes are opening up the public NHS market to the private sector, but not to the social enterprise sector, which is not large enough to compete with national or multinational private healthcare businesses. Many social enterprises do not have the money to invest in preparing tenders, or the capacity to deliver the growth that is now required in order to be successful. As a result, private-sector companies are likely to clean up the market, while social enterprises are still pulling resources together to respond.

Partnering is not enough
If alternative methods of public procurement are not adopted, we will get a proliferation of large, national private-sector organisations. It is not enough to encourage social enterprises to "partner" with established private businesses. Such partnerships of unequals rarely benefit the smaller party. Consideration should be given to establishing a proportion of the market that should be contracted with the social enterprise sector, or to smaller SMEs – just as in the USA a proportion of all government contracts have to be delivered by community development organisations.

Government action is essential if public service contracting is ever to lead to a significant

proportion of public services being delivered by social enterprises. The automatic use of tendering as a route for contracting services needs to be revisited. Could benefits be achieved by establishing partnering arrangements between social enterprises and public bodies, in order to diversify and grow the market?

Social enterprises should be treated like SMEs and specific support offered to grow the sector. So often the social enterprise sector is treated as the voluntary sector. We must ask ourselves why it is not treated, for example, like the university science parks, with incentives and support for growth, given the benefits it produces.

In regeneration, in particular, the government has been successful at stimulating new markets. Hulme in Manchester was a disaster for private-sector housing. Fixing land values, identifying a preferred developer and providing city grants made it attractive enough to a private house-builder to take the risk of developing. Now it is a national success story, with a much more sustainable mix of private and public housing. Similar techniques could be used to support social enterprises to develop in new markets. The neighbourhood nursery grant was introduced to support the development of out-of-school and nursery childcare. Experience over the last three years has shown that all this support has not been sufficient to enable sustainable businesses to grow. A large proportion of money has also been invested in public-sector childcare provision, but the market continues to be skewed by unfair competition from local authority provision.

Contract management must be appropriate

It is probably unoriginal to say that the quality of commissioning and contract management remains poor within the public sector. But more specifically, smaller contracts are either micro or macro managed. The micro-management may require contractors to jump through ridiculous hoops. For instance the Sure Start programme audit is carried out by the National Audit Office. It is an audit of the accountable body, here the local authority, which is required to provide audit documentation from agencies contracted to deliver Sure Start programmes. Delivery agencies provide primary evidence of their spend, including any contracts they have with other agencies to deliver services. In one case the lead agency contracted with an NHS trust to provide a midwifery service. The auditors required not just the contract between the lead agency and the NHS body, but also NHS payroll information!

The macro-management of contracts is similarly disastrous. Small contracts can often seem insignificant when overseeing the spending of multimillions. There are examples

where contracts have not been renewed for years, and social enterprises have been expected to continue to deliver. This is not through any ill will, but from sheer mismanagement.

Public procurement must therefore become more professional, must focus on intelligent commissioning and not just the lowest price, must allow for market diversification, must provide support for the growth of the social enterprise sector, and must commission for long-term outcomes, not short-term outputs.

Most public-sector commissioners are reluctant to take any risk. The public sector is far more likely to risk maintaining the status quo of unequal provision of health, childcare and employment, than it is to risk giving a contract to a social enterprise provider.

Skills and support

Alastair Wilson pushes for the "power of practical learning and peer support", pointing to a need to recognise individuals in generic support and to demonstrate the long-term value created by those services. For him, "context, rather than content is king" and a "genuine social enterprise head" is needed by those who profess to advise.

Pam Alexander believes that RDAs can do much more than just provide appropriate advice and support or follow government diktats to "promote the development and growth of the sector". Her proposals require looking at broader framework issues, where: "We believe that this is a journey of cultural change which must be weaved into public policy and implementation structures at every level."

Alastair Wilson, Chief Executive of the School for Social Entrepreneurs

The School for Social Entrepreneurs
The School for Social Entrepreneurs provides training and opportunities to enable people to use their creative and entrepreneurial abilities more fully for social benefit. The school was founded in 1997 by Michael Young (the late Lord Young of Dartington), a social innovator who previously launched, among other things, the Consumer Association and the Open University. He instinctively understood that such people, who are passionate, action-oriented, committed and risk-taking, would learn best from other practitioners, in an environment where the inspiration and information they get can be applied directly.

The SSE is now expanding outside Bethnal Green in London, and supporting the establishment of a network of local schools across the country. There are now over 270 SSE Fellows working across a variety of fields: for example, health, environment, childcare, education, advice and welfare, and heritage.
(www.sse.org.uk)

When I first came to the School for Social Entrepreneurs, it was practically the only organisation that was providing specialised support for social entrepreneurs. Now the provision of support for social entrepreneurs and social enterprises has proliferated. Many other organisations have emerged that deliver support and training to social entrepreneurs at various stages, in different and complementary ways: for example, the Community Action Network, the Scarman Trust, Changemakers, Senscot and Ashoka.

The SSE's action learning methodology tells us that we should *recall and reflect, gather insights and understanding*, then *consider next steps and actions* in order to move forward.

Recall and reflect: what has been achieved?
When Michael Young established the SSE in 1997, he had a vision of providing a practical learning programme for entrepreneurial people acting primarily for social benefit. His methodology combined personal development with organisational support: individuals gaining confidence and acquiring skills and knowledge so that community-based organisations can be more robust, effective and sustainable.

A recent independent evaluation of the SSE's work over the past eight years shows the impact of this approach:[22]

• 85% of organisations that were established or developed on the SSE programme are still in existence (the organisations of the original students from 1998/99 have a survival rate almost double that of conventional business);
• 88% of SSE students experience a growth in confidence and skills;
• over 60% reported, on average, a fivefold increase in turnover;
• for every 10 SSE Fellows, 34 jobs and 69 volunteering positions are created.

Such figures demonstrate the effect of appropriate skills development and organisational support, and the power of practical learning and peer support. In addition to gradually increasing knowledge of social enterprise within mainstream business support, there is much to celebrate and recognise in current skills and support provision. But (and there's always a "but", isn't there?), there remain problems and challenges.

Gather insights and understanding
Social entrepreneurship provides a massive opportunity for the involvement of people from all backgrounds, ages, sectors and communities. Those at the grass roots can take ownership of new social change initiatives: becoming skilled leaders creating community-authored solutions and robust, effective organisations. A focus on different organisational models and opening markets will achieve little if social enterprise cannot attract, engage and provide support and development to the people who populate those models and markets.

22 New Economics Foundation *Evaluation of SSE Work & Impact, 1998-2006* (2006), available on request

Social enterprise requires unique and diverse support. But how do you meet that without duplicating provision or simply crowding and confusing the market? And you need diagnosis, not just of the type of support (for example, pre-support outreach, personal development, specific skills tutoring, high-end business consultancy), but of the type of person receiving that support. We must keep individuals at the forefront of our mind when talking generically about business support for social enterprise. One size emphatically does not fit all.

Communication of what is appropriate is important, as is information about the value and quality of the training and support provided. The value of support should be demonstrated, and supporters should understand how people use different providers at different times of personal and organisational growth.

Research shows that long-term support relationships are crucial, because social enterprise moves fast, is more complex than traditional business, and because new entrants can (as a result) become disheartened or disillusioned.[23] Short-term output, box-ticking, workshop, form-filling sessions may result in short-term knowledge increases, but what happens then? Does the person have the confidence to use this new information? Will they pursue it down a blind alley at too early a stage? Context, rather than content, is king. Independent, long-term, credible relationships are crucial, particularly when such initiatives involve personal risk and considerable responsibility.

Greater understanding is needed: both knowledge-based (holistic understanding of the mixed bag of support available, and the distinct challenges) but also in the empathic sense: appreciating the mission and aims, being prepared for things to develop more slowly.[24] It is simply not credible for traditional business advisers and agencies to "put their social enterprise hat on"; a genuine social enterprise head (and, when appropriate, heart) is needed.

Individuals increasingly find their peers more credible than so-called authority figures (particularly if they have no background of being a social entrepreneur). Giving them the chance to interact, learn from each other, provide support and share knowledge can be both more successful and more sustainable.[25]

23 Evidence for this long-term approach comes from, for example, *Social Entrepreneurship Monitor 2006*, Rebecca Harding, London Business School/GEM, particularly p17; and from Lyon, F and Ramsden, M "Developing Fledgling Social Enterprises? A Study of the Support Required and Means of Delivering It" in *Social Enterprise Journal* vol 2, issue 1 (2006), pp38-39
24 Lyon and Ramsden, op cit
25 See for example: Gillinson, S and O'Leary, D *Working Progress* (Demos, 2006), pp63-68

My 10 next steps therefore are:

- **Personal support and development** must go alongside organisational support and development. Social transformation is about lifelong learning and transforming people's lives *within* organisations as well as by their external activities and services.

- **Uniformity of content and delivery should be resisted.** Diversity of social enterprise and individual support needs is inevitable and welcome. The government's simplification agenda is to be welcomed as long as it does not just reduce programmes and support to meet targets.

- **Independent, trusted and credible support.** Support organisations need to root advice and support in practice, to develop trusted, uncompromised relationships, and be genuinely open and inclusive.

- **Quality and value of support should be better measured** and better communicated through long-term outcomes and impact.

- **Support opportunities should be increased** to democratise social entrepreneurship – not just high-end consultancy for a few stars. Franchise and genuine partnerships can achieve this proliferation of support.

- **The importance of understanding:** as knowledge, as judgment, as an agreed relationship, and as an ability to empathise with others. Non-directive learning and advice, which allows individuals to make mistakes and own their solutions, is crucial.

- **An investment in learning** and people; by, for example, business support vouchers or local practical learning bursaries.

- **Ensuring diverse leadership,** devolving power and money to all types of people, can be furthered by programmes with outreach or "pre-support" support and intensive personal development.

- **Duration and continuation** of support are required. Short-term support provides only short-term benefits; changing social norms and having an impact on communities can take several years.

• **Peer networks** will often be highly valuable and credible. Giving individuals the chance to build their own networks of support is hugely beneficial in the long term; diverse networks are stronger and the most useful.

My vision is of social enterprise being a broad church, with countless local niche initiatives having a cumulative impact that adds to that of the larger-scale players. It is a society where everyone has the opportunity to be a social entrepreneur, from any background, on any scale and in any location. But this multiplicity and pluralism, this mobilising of individuals and enterprises, will take hold only if we invest in, and truly empower, the people who drive it.

Pam Alexander, Chief Executive of the South East England Development Agency

The best social enterprises are dynamic businesses. Not only do they contribute to productivity through innovation, they also help to deliver social and environmental prosperity through added value in the delivery of goods and services.

Our view is that social enterprises should compete in a demand-led environment. However, we also recognise that social enterprise providers offer products and services to public and private procurers and consumers that are more complex than those usually offered by the private sector. It is the combination of profit-driven entrepreneurship and a motivation led by social or environmental goals that enables social enterprises to provide their added value.

Yet this social motivation often creates confusion in public-sector procurement (and in other markets) as they compete with other private and third-sector providers. As a result, questions naturally arise as to how, when and why support by government to social enterprise should be provided. Should they be included in mainstream support services to business or should they have their own infrastructure? At what point should community capacity-building end and business support begin? Who is truly qualified to advise social enterprise? And most importantly, who should pay for social enterprise support? These are questions that loom large, particularly for those organisations, such as regional development agencies, with a remit to promote the growth and development of social enterprise.

Support from the public sector to date has, in particular, focused on the provision of

funding for business support and investment, with increasing emphasis on the need for social enterprises to source this support through mainstream business brokerage organisations such as Business Link.

There is no doubt that the relationship between the wider specialist support market and Business Link has greatly improved in the last two years, with a growing number of partnerships between specialist and mainstream support providers.

Alongside making mainstream provision more accessible, most regional development agencies also have a strategy to work with a range of stakeholders to promote the growth and development of the sector. However, we would like to address other complementary issues to enable social enterprises to fulfil their true potential.

Does social enterprise have a mandate for delivering to the public sector?
Delivering public services is considered by many to be a growing opportunity for social enterprises. When the welfare state was created, the government's decision to separate the delivery mechanism from the marketplace was clear. Yet there is a knowledge gap of how business-based managerial techniques have influenced public services over the last 30 years. Even within public-sector workplaces, there can be confusion about how to mix the delivery of positive social impact with market principles.

The cultural shift social economy programme was created by the South East Enterprise Development Agency (SEEDA) to understand better how tensions between organisational cultures and practices in the public, private and third sectors can be addressed to best promote the delivery of social outcomes delivered through social enterprise.[26] Finding new ways to overcome the barriers brought about by this clash of cultures is vital given the role the public sector plays in social markets, acting as they do as facilitators, customers and gatekeepers for social enterprise.

Our work suggests that the barriers of organisational culture and regulation, which inhibit joint working between social enterprise and the public sector, can be overcome where there is a mandate from the general public for social enterprise to deliver services. This can be generated by giving social enterprises more opportunities for high-profile

26 The cultural shift social economy programme, for which SEEDA is the accountable body, is designed to support social enterprise development in the South East and will run until 31 December 2007. It is focused on five sectors – housing, culture, rural services, regeneration and environmental business – with five principles: demonstration, research, tools for cultural and regulatory change, networking and brokerage, and policy influencing.

success and by enabling the public to have more control over the selection of providers. This requires improved understanding of when and where social enterprises are best placed to deliver services (such as their proven impacts in public leisure, health and social care) and for the public sector to communicate and consult with local communities more effectively.

Is public-sector support for social enterprise anti-competitive?

We believe there may be a case for exemption conditions for social enterprises under European anti-competition law to give the public sector greater clarity over the legality of its investment and support. This is particularly important in situations where there is not market failure, but where social enterprises are working to deliver services in a more responsive and ethical way. Any exemption would, however, depend on a clear definition of social enterprise.

An alternative may be to incorporate social targets into public service contracts, which would have the two-fold benefit of giving social enterprises a competitive advantage while encouraging private enterprises to be more social responsible.

In addition, a public-sector funding framework should be created for both social enterprise and the wider third sector which operates on a mix of grants, loans and equity. The framework would need to provide a clear rationale for links between the finance mechanism and desired social outcomes.

How do you integrate social entrepreneurship into the public sector?

We are finding evidence that social outcomes are best achieved through the collaborative working of existing and aspiring social entrepreneurs in all three sectors – public, private and the third sector. The public sector can bring a strong understanding of governance and accountability; the private sector, methods of leveraging new investment and resources; and the wider third sector, innovative techniques for supporting vulnerable people (such as delivering services that work with, and are responsive to, the needs of customers or service users).

Supporting cross-sector networks of social entrepreneurs is vital to releasing their collective potential to achieve social outcomes. Yet we have come across social entrepreneurs who are isolated in their workplaces, particularly those from the public sector who, for example, want to help social enterprises to flourish within a slow-moving culture with performance criteria based on quantitative targets.

THE SMITH INSTITUTE

What is the role of the wider third sector?
Many social enterprises emerge out of organisations in the wider third sector, with a remit of social inclusion and community economic development. And many large charities essentially function as social enterprises or have strong trading or contract provider arms. A variety of support organisations are helping to build the capacity of individuals to become social entrepreneurs and are also laying the foundations for the emergence of social enterprises in local communities.

They, together with front-line organisations, play an equally important role in helping local communities to identify and articulate their specific needs based on local service provision. These early-stage development activities are often the building blocks to empowering and releasing entrepreneurship within a community. And this is just one factor that strengthens our belief in the continued importance of grant funding alongside earned income.

A clear framework of understanding must be created on the respective roles of different elements of the third sector, including the provision of funding streams that are distinct from, but encourage joint working with, social enterprise.

Conclusion
We believe in looking at skills and support for social enterprise in a more holistic way. The development of social enterprise is not simply reliant on a good business support infrastructure. For social enterprise to truly flourish, it must be understood across all sectors and validated as a public service delivery partner.

We need therefore to:

• create a framework for the delivery of public goods and services that explicitly identifies the role of the public sector, social enterprise and the wider third sector in delivering products and services in areas of public interest;
• define the parameters and priorities of public-sector support for social enterprise;
• develop a national public communication strategy on the principles and added value of social enterprise delivery in public service – this should be developed and delivered in partnership between the social enterprise movement and key infrastructure organisations from across the public, private and third sectors;
• develop clear exemption conditions under European anti-competition law to enable the public sector to have greater clarity over the legality of its investment and support

for the social enterprise sector;
- embed social innovation and entrepreneurship as a key competency for the public sector;
- create a public-sector funding framework for both social enterprise and the wider third sector, which operates on a mix of grants, loans and equity – this framework should provide a clear rationale for links between the finance mechanism and the desired social outcomes from the funding provided.

We believe that this is a journey of cultural change that must be woven into public policy and implementation structures at every level.

Empowerment and community cohesion

Nigel Lowthrop shows how community cohesion can be built from community involvement and ownership of assets and activities. He believes that trust from the community is critical to success and that the engagement of local people enhances positive outcomes. "Communities quickly understand what will make their environment a better, safer and more open place. Communities take the long view."

Glenn Arradon shows how community-owned and -led enterprises are core to successful and sustainable regeneration "motivated not by the quick fix, but by the long-term prosperity of all". He also points out that "a lack of socioeconomic diversity" can create enduring problems for individuals and communities and that efforts to build bridges between different groups in a locality are core to tackling poverty.

Nigel Lowthrop, Innovator and Eco-entrepreneur

Hill Holt Wood
Nigel Lowthrop is the founder of Hill Holt Wood Ltd, which manages a small woodland where a large number of people are employed, through income primarily generated by working with the excluded – at-risk or unemployed young people. Their mission is "proving the value of ancient woodland in the 21st century". Hill Holt Wood is controlled by a board of voluntary directors representing local communities, local and national businesses and local councils. It creates an annual surplus for investment and innovation through a diversity of income streams from different clients and products and services, including manufacturing and selling woodland added-value products, or delivering consultancy services.
(www.hillholtwood.com)

My career has been a long journey, from biologist to social entrepreneur. My passion was always the environment. Experience as a nature reserve warden in Derbyshire taught me that all was not well in our countryside. Our approach to land management was inherently unsustainable. I also experienced the discovery of the hole in the ozone layer first-hand as a biologist in South Georgia. This all led to my personal drive to find an alternative but economic approach to our farming, forestry and general care of the landscape. At the Kyoto world summit the recognition that a sustainable future required a balance between social, environmental and economic drivers became generally

accepted, and this gradually began to infiltrate government thinking.

I believe that communities can live in harmony with their natural environment *and* make an economic return. Developed countries in the northern hemisphere should be wary of imposing their solutions upon developing countries. Learning should be reciprocal. In Africa and South America, I witnessed inspirational community projects – their success the result of communities managing their environment appropriately, sustainably and profitably. To me, true sustainability means that all three drivers (social, environmental and economic) have to be present, particularly the social – people. Such beliefs underpin the importance of a community link and help to explain the reasons why my wife and I purchased Hill Holt Wood in 1995.

Getting the community to buy in
From the very beginning the wood was open to the public whenever possible, for the local community to enjoy without charge. To me, access is a marketing opportunity. If local people enjoy the wood and see positive improvements, they soon "buy in" and support the project. Within two years, the Hill Holt Wood Management Committee was established, initially representing four parishes. Over the following four years it grew to 11 villages, all within a three-mile radius of Hill Holt.
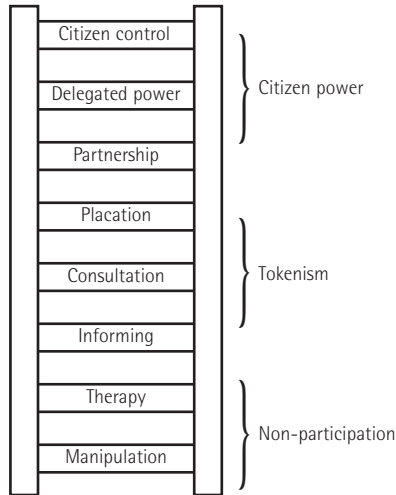
Throughout this time, I attended forestry conferences and seminars, particularly events under the leadership of Forest Research, which was developing a team working on the new concept of "social forestry". I also learned about the work of an American planner, Sherry Arnstein, and her Arnstein scale, a scale running from one to eight, assessing the degree of community involvement. At level one, the controlling body for a project acts without any communication with the community. Level nine indicates full community control. The middle levels represent varying degrees of consultation and autonomy.

After 10 years of developing Hill Holt Wood into a successful community-controlled and community-owned woodland and business, I understand that by acting in an open and transparent way with justice we have achieved trust. We have the trust of our community, the councils at all levels and the organisations we partner.

We also empower young people. We have, for example, a Learning & Skills Council contract working with unemployed 16- to 19-year-olds. At Hill Holt Wood this is not about outputs (such as a qualification) but about outcomes, enabling young people to realise a future. We also work with children excluded from mainstream education, through

for example team-building exercises, and are recognised by the Lincolnshire police as helping to reduce youth crime, leading to their willingness to work in partnership with the new Hill Holt countryside service.

Figure 2: The ladder of citizen participation[27]

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            Citizen control    ┐
                               ├ Citizen power
            Delegated power    │
                               │
            Partnership        ┘

            Placation          ┐
                               ├ Tokenism
            Consultation       │
                               │
            Informing          ┘

            Therapy            ┐
                               ├ Non-participation
            Manipulation       ┘
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As I look out of my study window while writing this piece I see a kingfisher flying over the lilies on the lake as a buzzard cries overhead. I am typing on a laptop powered by wind and sun and drinking coffee made from rainwater, and all within 300 metres of the A46. I see from a personal perspective the benefits of that trust relationship with the local community.

Having a family living in the wood makes it, even if by perception alone, a safer place. This is not always obvious to external agencies. Communities quickly understand what will make their environment a better, safer and more open place. Communities take the long view and often are prepared to take great leaps forward that could not be taken by individuals. Traditional rural estates under the ownership of a single family have often provided excellent examples of long-term management and a holistic approach, but they are also anachronistic, relying on a socially unpalatable model of patronage with no guarantee of future sustainability.

27 Arnstein, SR "A Ladder of Citizen Participation" in *Journal of the American Institute of Planners* vol 35, no 4 (July 1969), pp216-224. She wrote, "I do not claim any copyrights."

Social enterprise has the advantage

The advantage of a social enterprise is that, under the ultimate control of communities, it can take the long view and a holistic approach under the leadership of an entrepreneurial or business model. Time moves on and maybe the capitalist model of the 20th century is about to be superseded by a more democratic integrated community model, which retains the dynamic entrepreneurial approach but seeks a balanced triple bottom line (economic, social and environmental) rather than just a short-term cash return. Agendas evolve, particularly with climate change increasingly being recognised as a real and immediate problem.

"Well-being" is rising up the political agenda and perhaps the way forward is already clear. Social enterprises that are democratic, inclusive and community-led do not just provide jobs and create wealth, but they also use their business model to solve many issues that face communities. Whether it is managing our environment or finding a role for those excluded from society, social enterprises add value to mainstream business. A community right to buy assets is already in place in Scotland. What a wonderful opportunity for England to follow.

Empowerment can allow poor communities to trade their way out of problems, rather than remaining the recipients of highly directed funding. At Hill Holt Wood, the business is no longer dependent on a family. A representative board of directors provides support and expertise. Key to this success is a model of governance that ensures continued financial stability, the sustainability of the environment and long-term community control. Directors need to be aware that they provide the governance to a dynamic entrepreneurial business. Government needs to recognise the benefits of investing in and procuring from these community-led businesses.

Glenn Arradon, Information, Membership and Policy Officer with the Development Trusts Association

The Development Trusts Association

The Development Trusts Association aims for a successful development trust in every community. Development trusts promote sustainable wealth creation and build social capital in localities that face acute deprivation, through creating enterprise and building assets. There are over 350 development trusts, all community-owned and community-led. More information and case studies can be obtained from the association's website. (www.dta.org.uk)

THE SMITH INSTITUTE

Over a century ago, Quaker philanthropist Seebohm Rowntree carried out the world's first detailed study of poverty, based on household expenditure surveys in the city of York. He found that 10% of the population was living in poverty. The study highlighted the failings of the capitalist system and argued that new anti-poverty measures were needed. There followed a hundred years of debate about definitions, causes and methods of intervention. But has anything really changed?

It is true that a new "poverty industry" has emerged, with businesses such as credit card companies, pawnshops, off-licences and casinos increasingly providing goods and services specifically for the poorest people in society.

The language of poverty has also shifted. The term "social exclusion" is now commonly used to broaden the traditional conception of poverty to one with wider dimensions and consequences. It describes what happens when people or areas suffer from a combination of linked problems such as unemployment, a lack of skills, low incomes, poor housing, high crime, bad health or family breakdown.

Finally, this government has poured resources into area-based regeneration initiatives targeting the country's poorest neighbourhoods, alongside nationwide programmes aimed at particular social groups, such as the long-term unemployed or pregnant teenagers. A variety of economic and social interventions have been presented as anti-poverty measures, from weaning people off incapacity benefit to encouraging active parenting skills.

Yet recent official studies suggest that the lives of one in four people in the UK are still blighted by poverty.

The vicious cycle of exclusion
There is growing evidence that socioeconomic and geographical poverty are mutually reinforcing, and can often become entrenched over time. Studies on area effects show that a lack of socioeconomic diversity tends to create a concentration of social and economic problems which lead to a greater probability that residents will be personally affected. As a result, successive generations will be locked into a vicious cycle of poverty and social exclusion.

But there is also now evidence that community-led area-based regeneration can break this cycle of deprivation, and tackle some of the major causes of poverty at the local level.

Interventions also mean encouraging a greater diversity of income-groups and types of housing (social, rented and owner-occupied) in deprived areas, and recognising that social and family networks play a key role in mitigating the impacts of poverty.

So far, government-led responses have been disappointing. The New Economics Foundation and others have exposed the underlying problems: resources directed at poor neighbourhoods have been wasted, either because they are diverted into expensive infrastructure, bureaucracies and consultancies, or because wealth can leak out of a local economy as fast as it comes in – often leaving poor people behind.

At the same time, there is often a sense of alienation among the people such programmes are designed to help. With power, resources and decision making held elsewhere, top-down attempts to empower communities all too often disintegrate into endless frustration and bitterness, meaningless consultations and a culture of opposition and conflict.

But there is another way.

The emergence of community trusts

The last two decades have seen the emergence of community-led organisations providing bottom-up solutions to area-based regeneration, in the form of development trusts and other community "anchor" organisations.[28]

Development trusts are community-owned and -led, concerned with the market-based regeneration of local communities. They bring wealth and employment to their local community through self-help, community empowerment and community asset building.

Stephen Thake at London Metropolitan University has highlighted the contribution of development trusts and other community anchor organisations in tackling low income in deprived areas. He found that by creating clusters of activity and networks, such organisations enabled residents to access jobs and integrate socially.[29]

Not only do development trusts, for example, create local employment and economic prosperity, they also have a broader mission to encourage social capital. These are the skills

28 The term "community anchor" is used by the Home Office for organisations with four characteristics: they are controlled by local residents and/or representatives of local groups; they address the needs of their area in a multipurpose, holistic way; they are committed to the involvement of all sections of their community, including marginalised groups; and they facilitate the development of the communities in their area.
29 See for example: Thake, S *Building Communities, Changing Lives* (Joseph Rowntree Foundation, 2001)

and networks that individuals need to maximise their life chances. Without social capital, people may not fully benefit from growing prosperity and remain socially excluded and trapped in poverty.

This is complex work, not least because communities are so diverse, with a great variety of groupings and identities within any neighbourhood. But it is becoming clear that, in any anti-poverty strategy, the importance of building bridges to the wider community, as well as bonds between people in homogenous groups, is critical.

For example, in areas of ethnic tension and diversity, it is important to create those bonds and bridges for effective regeneration. For example, Goodwin Development Trust set up a reception centre for asylum seekers in Hull, mainly Kurds, Iraqis, Palestinians, Nigerians and Afghanis. Since Arabic was the most widely understood language, Goodwin decided to provide basic Arabic training to its entire staff. The trust made sure that all services were geared towards asylum seekers' needs as well as those of the rest of the community so that "people arriving from other countries can immediately become involved in a community".[30]

Another ways to create those bridges are, for example, to ensure that a development trust is "owned" by the whole community and understands local needs, by mapping those needs and looking for skills and ideas in the local population. Another challenge is to create relevant forms of governance that secure local participation. The key is the right balance between community representation and expertise, and appropriate ways to feed information back to the community.

Workforce diversity can be important for community cohesion and engaging positively with the local community. You also need to be based in the community and take into account religious and cultural festivals and holidays when planning events.

Another important approach to community cohesion consists of helping local groups to participate in community life and link with public-sector bodies and consultations. Buildings can be important, for example, in creating a truly neutral and welcoming space recognised by all communities as "their" space, by opening up facilities as a venue for social events. Finally, one fun way to raise participation and cohesion is through community events and festivals.

30 For further information on this and other examples, together with a toolkit of how to achieve community diversity and engagement, see: Development Trusts Association *Bonds & Bridges: A DTA Practitioner Guide to Community Diversity* (2006)

The capacity of development trusts and other community-based organisations to initiate local solutions in this way is often a function of their financial independence. But with many dependent on grant funding to stay afloat, there is a real danger that external agendas will exert an unhealthy influence over their activities and social mission. While it is clear that national government programmes can help tackle some of the roots of deprivation in disadvantaged neighbourhoods, they often provide only a time-limited and temporary solution.

The experience of development trusts suggests that long-term community-led solutions, capable of flexible and locally driven responses to complex and changing pressures, depend at least in part on the ownership of community assets. Owning land or buildings builds confidence, and engagement in the community provides the means to generate independent revenues, to raise commercial finance, thereby increasing their ability to make positive community impacts. Having something to bring to the table can also transform relationships with local agencies – enabling the community to enter into negotiations, strike deals, broker partnerships and be listened to.

All communities are increasingly exposed to the impacts of a globalising world. They face complex and continuing challenges in managing socioeconomic change. And, in many ways, the problems facing deprived communities are the toughest of all.

If they are to raise themselves up out of entrenched poverty, localities need community-led institutions that are enterprising and flexible, and that generate local solutions to local problems delivered by empowered people and through cohesive communities. They are motivated not by the quick fix, but by the long-term prosperity of all.

Finance

Sustainable social enterprises are the goal. Nigel Kershaw argues that rather than focusing on investors, we should "look at the question of what is missing in financial provision from the borrower's point of view and not the supplier's". He believes that "we must develop creative social financial instruments that do not try to overlay traditional structures that do not fit".

Andrew Robinson believes that we need the "humility to accept that solutions do not reside in any of the structures we have inherited", and that: "Social enterprise is a way to restore integrity to the concept of shareholder value by providing a sustainable, creative and open alternative structure to achieve social and economic change."

Nigel Kershaw, Chief Executive of BIGinvest and Chair of *The Big Issue*

The Big Issue
The Big Issue Group's philosophy is "a business solution to a social crisis", giving disadvantaged people an opportunity to earn their own living in the marketplace, focusing on self-help and giving people "a hand up, not a hand out". It set up BIGinvest, a £3.5 million social business loan fund, to finance business solutions that create financial inclusion, opportunity and regeneration by scaling up social enterprises and delivering blended social and financial returns to investors. The Big Issue has non-dividend shares as well as a "golden" share, which protects the mission. There is also an asset lock on BIGinvest. BIGinvest can only pay dividends to Big Issue partners – making a unique combination of social entrepreneurs, practitioners and financiers, including HBOS, which provided seed funding and £1 million loan capital, Clifford Chance and C&CF.

Social enterprise is a culture. It is about applying a business solution to a social crisis, or pursuing a new business idea that creates opportunity and social inclusion. It is about embracing profit. Most people would say that the mission comes first and profit is secondary, but the two are indistinguishable. You cannot achieve your social aims without profit. The key question is what you do with it: how that profit can be reinvested and how you can grow.

Attracting investment and sustaining financial security throws up challenges and contra-dictions unique to social enterprise. For example, at *The Big Issue*, we call the impact of

the profit produced by our core business the "social dividend". We also deal positively with the contradiction created when our two objectives, social and financial, come together. The Big Issue Savings Fund keeps the earnings of the vendors safe. The social benefits are "safer money", creating a savings culture, provision of financial advice, and creating a secure source from which vendors can buy more magazines. The financial side is the benefits of known money being available to buy the magazine. Where they overlap, you get the "hum". You have to live with the contradictions. Don't try to solve them: you can't.

Preferential treatment is a myth
One of social enterprises' greatest problems is the perception that we attract preferential treatment, particularly from public policy. Far from providing an unfair advantage, this support is still actually insufficient to compensate for mainstream incentives and financial breaks that are unavailable to social enterprises. For example, tax breaks such as the enterprise investment scheme, venture capital trusts or even the use of offshore tax havens are often inappropriate for social enterprises.

We also need to challenge misconceptions within the sector itself. We have a tendency to berate ourselves for receiving grants, and to worry about the particular percentages of different types of finance that we receive or create. Quite simply, it does not matter. The more important issue is whether your social enterprise is sustainable. In fact, it might be better to think about finance and funding in different ways. For example, I don't like "not-for-profit" as a term, since you have to create profit to survive. And you could see grants as investments, and then you are not creating dependency. You could also treat grants just like contracts.

Another issue is the current focus on social entrepreneurs and start-ups. We need to realise the importance of social "managers" and focus on how we can dramatically increase the growth rate and impact of the sector (through scale or by franchising for example). We need a "cult of the manager".

This growth can be achieved only if we find ways to use existing government investment mechanisms (or change them if necessary). Examples include community investment tax relief, which needs extending, and the enterprise investment scheme, which needs to become more accessible. These could work better for social enterprises if they give income tax relief rather than capital gains tax relief, since most social enterprises do not have equity. The small firm loan guarantee scheme also needs to be extended, to help increase risk finance into social enterprises. You currently have to show the strength of your loan

book in order to access this, which is difficult for some social enterprises.

We also need level playing fields. Securing investment means dealing with banks and investors. Social enterprises risk being compared unfavourably with private-sector companies because their added value and "social dividend" have been misunderstood, are difficult to quantify or are ignored because their results fail to fit into recognised accounting frameworks.

When *The Big Issue* bought its first building, the bank manager asked for our level of profit. We said there was none, and the bank therefore refused to lend to us. We then stripped out the "social dividend" (at that time, 1994-95, our auditors had never heard of that phrase) and showed the profit produced by the core business. The bank then recognised a healthy profit. But the problem is that you cannot separate out the core business in statutory accounts. The banks need educating about social enterprise and we need to get cleverer about how we present what we do.

Social value must be accounted for
We need to find ways of investing that give blended social and financial value and create clear exits for finance providers. For example, we should support the work to develop a secondary market in social enterprise shares and therefore encourage more investment and involvement in the sector.

The lack of equity structures in most social enterprises will always make risk investment harder. BIGinvest's mission is to finance business solutions that create financial inclusion, opportunity and regeneration by scaling up social enterprises and delivering social and financial returns to investors. We look at the question of what is missing in financial provision from the borrower's point of view and not the supplier's.

We have to evaluate social enterprises on the basis of their *future* cash-flow generation potential, with less emphasis on historic earnings, the value of shareholders' funds or the amount of available loan security. In this way we can fund start-ups and other young social businesses with zero or relatively minor owners' equity, or with little or no assets as security. In the absence of traditional equity, many social enterprise loans can be structured to be "equity substitutes".

Some of BIGinvest's investors are angels who want a range of returns. The investment vehicles they create can attract tax relief but can also educate more mainstream angels.

The key is to understand the market and match those deals with appropriate investors. Because we broker deals, we can create scale and are in effect "funds of funders".

For social enterprise to flourish we must develop creative social financial instruments that do not just try to use traditional financial structures. Instruments can include long-term debt, royalty structures, angel guarantees, leasing, convertible loans and equity investments.

But the sector itself has sometimes thrown up its own barriers, for example by having boards of trustees who are risk-averse and inhibit entrepreneurship, creating a feeling that entrepreneurs and innovators are excluded from strategy.

We need underwriters and social financers who are prepared to evaluate a social enterprise's credit risk, to think beyond the traditional measures of company accounts and asset valuations, and to design suitable financial solutions. But above all, finance providers need to think like end-users and not just adapt existing models. They need to understand the uniqueness of social enterprise mission and ownership and how these translate into and have an impact on appropriate investment finance.

Andrew Robinson, Director of CCLA Investment Management

CCLA Investment Management
CCLA is an independent investment management company managing the investments of voluntary and community organisations, charities and social enterprises, churches and faith groups, local authorities and other public-sector bodies. It is owned by its clients and has over 96,000 accounts for more than 42,000 clients, with around £4.4 billion of funds under management. CCLA was one of the first providers of socially responsible investment (SRI) services to charities.
(www.ccla.co.uk)

"Shareholder value" – the words ooze with goodness. Even though the expression is about straightforward financial gain, it comes across as a timeless virtue. Shareholders are participants, and "value", according to the *Oxford English Dictionary*, means "worth, desirability and utility". The concept is steeped in logic that appears difficult to criticise, and the system built upon it is based on what we all seem to want – more money. The effort to deliver shareholder value is so concerted and so forceful as to appear

almost unanimous. Management schools teach it. Magazines and websites are devoted to it. Consulting firms have whole divisions that provide companies with advice on how to improve it.

But it has never really done much for the poor, because they do not own any shares, nor for social enterprises – largely because of the economic expectations of the traditional investor and the manner in which the capital markets work. Indeed, the pressure to produce better returns for insatiable shareholders is so enormous that nothing is ever attempted that would appear to make profit and growth subordinate goals. Even the managers and directors, who may personally like to develop more pro-social policies, products and services, find themselves constrained. The result? The very institutions that are all about wealth creation find themselves being pulled away from the communities and sectors where they are needed most.

Now you could whinge, as many from the third sector do. But an increasing number of people are having some success developing market-led solutions to tackle social, environmental and economic problems. The steady growth of socially responsible investment and community development finance institutions, and the emergence of new niche banks, combined with the increased interest in the potential of social enterprise, are all beginning to chip away at the real and perceived barriers relating to the finance and funding of the sector.

Blending words such as "community" and "social" with "enterprise" and "investment" is quite disturbing for some – a real challenge to tidy minds! But my experience is that only cross-sector, hybrid solutions make a difference. Take poverty. I am increasingly of the opinion that poverty is more of a political problem than an economic one, and that the solutions will inevitably be rather messy – economic and social, both of which must be taken on simultaneously, not one after the other.

Reclaiming the concept of "value"
Social enterprise is a way to restore integrity to the concept of shareholder value by providing sustainable, creative and open alternative organisational structures to achieve social and economic change.

Many social enterprises have evolved out of direct action against conventional logic. Social entrepreneurs know that poor neighbourhoods will not be changed by working within the existing political and economic system to resolve imperfections in the market.

The free market system never has, and never will, take care of us all. Listen to a social enterprise leader speak. We need the humility to accept that solutions do not reside in any of the structures we have inherited.

Over the past few years, the mainstream banks and fund managers have begun to wake up to the third sector. Lawyers and accountants now have charity and social enterprise teams. For some, it is just a change of name on the wrapper; others, though, are beginning to organise themselves differently to serve this market better.

Growing the market, however, is something quite different from reacting to a growth opportunity. For social enterprise, in particular, the interventions of a number of other institutional actors, and greater political leadership, will be required.

Some possible ways to improve finance availability
There is concern over the lack of appropriate finance for social enterprise, and a poor understanding of both demand and supply constraints. Consequently, there is a range of studies in progress to improve this understanding. But a 2003 Bank of England report made valid recommendations, some of which have been implemented and others of which have not. Why is that? Here are a few examples:

• Banks and community development finance institutions should be encouraged to work together, particularly at local level, to encourage co-financing of social enterprises where appropriate.
• Poor management information on the sector needs to be addressed.
• Banks may like to review their procedures for ensuring that broad policy intentions at head office level are implemented effectively at branch level and that incentives for local managers (by portfolio value or cross-selling) encourage proper consideration of social enterprise applications.
• Grant funders should be encouraged to make payments up front.
• Some large successful social enterprises may like to invest in start-up or more recently established social enterprises.
• Government may need to extend the availability of support, for example through subordinated matched funding, or tax relief on investment in social enterprises.
• The government and the Financial Services Authority might like to review the current regulatory exemptions relating to share issues, in the light of the particular characteristics of social enterprises.[31]

31 Taken from: Bank of England *The Financing of Social Enterprises* (2003)

The ultimate success of an investment, beyond an appropriate deal structure, depends on the competence and commitment of management and the validity of the business model and its purpose. No one who has had any dealings with the social enterprise sector can question the former, but the last two points are hugely problematic for banks to understand or be clear about. And until they have bottomed out, barriers to financing and funding will continue to be the major constraining factor to realising the social and economic potential of the social enterprise sector.

Gandhi said: "First they ignore you. Then they laugh at you. Then they fight you. Then you win." Where along that continuum you plot the progress of social enterprise at the start of 2007 is an interesting question. Winning, to me, means the acceleration of a new economy, where every generation really can leave something of more value to its children – and, you know, when you use the word "value", it doesn't just mean more money.

Section 3

So how do we get there?

So how do we get there?

Participants in our brainstorm noted that none of the social enterprise visions would be realised unless government creates the right frameworks in society and people believe in them. In a changing world, the rules of the game need rethinking and renewing.

While many different stakeholders have a role in enabling these social enterprise visions, this pamphlet is aimed at politicians and policy makers. Each of the contributors has set out their own views on specific policy amendments. Here we focus on issues that would better enable social enterprise to contribute fully to future policy outcomes, and to a world where all organisations, people and activities are fully engaged in addressing difficult and messy problems within appropriate frameworks.

There is a perception that social enterprise provides a much-needed ethical alternative to the wider commercial world, but will always remain less economically significant. Within the boundaries of existing thought, this is perhaps true. But to realise fully the potential of social enterprise, government needs to:

• ensure that the potential of different kinds of social enterprise activity are explored in relation to all the challenges of the comprehensive spending review, not just "economic and social regeneration" or public service renewal;
• consider how the public sector can become more risk-loving in its relations with social enterprise in order better to allow those organisations and communities to appropriately address their needs;
• increase understanding of the possibilities of social enterprise and the third sector by learning from international examples and contexts. This is not just about looking at new examples but about understanding different ways to look at the concepts and adopting a more pluralistic view of social enterprise which combines many previously excluded dimensions, particularly that of engagement and empowerment of people;
• extend the raising of awareness about social enterprise as extending beyond a focus on young people to all types of people across society, to local and regional government within the UK, as well as within the EU and the UN;
• ensure that proposals to support the development of appropriate finance for social enterprises focus primarily on what is appropriate and what works with actual and potential demand, rather than just encouraging further supply of mainstream finance;
• explore in detail the organisations that overlap social enterprise and mainstream business because of the current lack of understanding, their inspirational potential,

and their ability to inform future market policy and corporate social responsibility strategies. This analysis should not just be national, it should also be international;

- further investigate the implications of social enterprise models for the delivery of public service goals, beyond public procurement, to new forms of partnership and viable organisational structures for activities in the public interest;
- pay more attention in central, regional and local government to creating new ways to measure value that draw on existing and new value measures, from across society and internationally, and which incorporate and balance economic, social and environmental outcomes;
- break social enterprise down into different elements rather than always looking at a homogenous sector – this analysis could then cross-cut with ways to better explore the nature of different ways of achieving outcomes (say, childcare or waste management), through types of organisational structure, and to investigate where partnerships across "sectors" might be most appropriate;
- conduct more research into what constitutes effective partnerships between organisations and people with different motivations. This work could draw on and extend the work of SEEDA in its cultural change programme;
- explore how the lessons from social enterprise practice can inform future policy development in:
  - democratic renewal – including the role of associations, organisations and networks in balancing the tensions between representative and direct democracy;
  - empowering people to realise better their own aims and objectives;
  - community cohesion through understanding how bridges between groups and people are created;
  - the governance of outsourced and independent or semi-independent public bodies;
  - international, national, regional and local policy that balances the social, economic and environmental and does not look at each of these issues in silos or within separate departments – this kind of policy could include, for example, tax, legislation or compulsory labelling that support pro-social and pro-environmental behaviour;
  - new management techniques and incentives that balance financial sustainability and efficiency with social and environmental missions.

But the discussion at our brainstorm also highlighted things that government should stop doing or should never do:

- taking over social enterprise for its own aims;
- trying to commission innovation and enterprise;

• focusing only on conventional economic measures;
• seeking to lead – it should be backing other people's energy;
• spending money for the sake of it and being reactive;
• just ticking boxes;
• picking winners;
• judging on price alone;
• believing in the inevitable superiority of large-scale procurement and "trickle down".

There is clearly not one vision for the future but there are some principles or values that underpin the hope for, and the practicalities of, a socially and environmentally sustainable society. Where the visions of social enterprises, social entrepreneurs and government coincide, that is where future debates and policy changes need to be found.

As Andrew Robinson says: by looking at these issues, we can "begin to redefine the relationship between social enterprises and the mainstream economy. It may even, as some of our partners would hope, accelerate the arrival of a new economy, where every generation really can leave something of more value to its children."