

# The Case Against Social Enterprise

## Introduction

Social enterprise is very much flavour of the month or even, possibly, the next big thing. Its proponents put forward an ambitious agenda of creating jobs, providing training and developing local services in areas of serious and long-standing deprivation, while holding out the prospect of financial viability rather than grant dependency.

According to Jonathon Bland, the Chief Executive of the Social Enterprise Coalition, interviewed in the Observer in 2004:

...we want to establish the building blocks for social enterprises so that in twenty years time, the coalition will sit along side the TUC and the CBI. It will be that central to the country.<sup>1</sup>

Allowing for a smidgeon of hyperbole, there is no doubt that the momentum around social enterprise has accelerated. Central government through the DTI's Small Business Service (SBS) has set up a Social Enterprise Unit (SEU) and has recently concluded a major research project on the scale of the social economy in England and Wales as the basis for targeted support. Each of the Regional Development Agencies (RDAs) has a similar support structure and no self-respecting local authority would be seen dead without at least one Social Enterprise Advisor.

Why has interest in social enterprises taken off in this way and what are the implications for poorer communities and their local economies that are supposed to be the main beneficiaries? In this paper we begin by teasing out some of the difficulties and inconsistencies in the definition of social enterprise before critically analysing the model as a significant contribution to regeneration.

Social Enterprise, as presently constituted, is a catchall phrase that masks serious problems including ones of scale, significance to the local economy, ambiguity as to social versus private purpose and the tensions between trading for profit and providing a local service for disadvantaged communities. Little consideration is also given to the overarching context of privatisation and marketisation in public provision and how that impacts on the prospects for radical alternative models of the social economy.

## Definitions

As John Pearce, one of the leading thinkers on social enterprise argues:

It is essential to have a clear, unambiguous, definition of social enterprise that allows society to know, not only when an organisation is a social enterprise, but also when it is not.<sup>2</sup>

For him, there were six defining characteristics that distinguished Social Enterprises:

1. A social purpose

2. Engaging in trade
3. No private profit distribution
4. Holding assets for community benefit
5. A democratic structure
6. Accountability to stakeholders<sup>3</sup>

But this emphasis on social purpose above profit is not universally shared. Social Enterprise London (SEL) portrayed social enterprises as essentially part of the private sector:<sup>4</sup>

Social Enterprises are competitive businesses, owned and trading for a social purpose. They seek to succeed as businesses by establishing a market share and making a profit. Social Enterprises combine the need to be successful businesses with social aims. They emphasise the long-term benefits for employees, consumers and the community.

Similarly the DTI argued that:

Social Enterprises, large and small, bring together the expertise and dedication of the voluntary sector with the flair and flexibility of the commercial world.<sup>5</sup>

Clearly, there is considerable scope for differing interpretations of what constitutes a social enterprise. For Pearce and many others whose roots are in the voluntary sector and the co-operative movement, social enterprise represents a radically different model – a vision of the way people and organisations might work together for the common good through democratic organisations and without the reliance on profit as traditionally perceived. Others see social enterprise as a way of maintaining social purposes through normal market mechanisms of profit.

### The Drivers of Social Enterprise

Given these different perspectives, it is worth reflecting on who or what were the main drivers of social enterprise - the key people and organisations that influenced policy. As early as 1997 with the election of the first New Labour government, a stream of papers was produced by think tanks such as Demos, the Institute for Public Policy Research (IPPR) and the New Economics Foundation (NEF) that promoted social enterprise as an exciting alternative for social provision, particularly in poorer communities. Perhaps one of the most influential was Charlie Leadbeater's paper for Demos, which focused on:

...visionary individuals...creating innovative forms of active welfare, health care and housing which are both cheaper and more effective than the traditional services provided by government.<sup>6</sup>

Such ideas were very much influenced by US social entrepreneurship that revolved around dynamic self-starters backed by philanthropic supporters who stimulated social enterprises in deprived areas – a sort of heroic 'ideal type' that could be transported across the Atlantic to break through the shackles of hidebound, unimaginative bureaucracies in the public sector. For a government committed to a general culture of

support for enterprise and ‘Third Way’ alternatives to the provision of mainstream services, this held many attractions.

Also significant was the role of regeneration funding – specifically European Regional Development Funds which, during the late 1990s, began to prioritise what was defined as community economic development. Influential here was the work of Professor Peter Lloyd from Liverpool University who wrote several reports for the European Commission. An underlying concern was that many previous regeneration programmes had been infrastructure driven, i.e., big capital-building projects that had not directly benefited the most economically disadvantaged groups such as the long-term unemployed.<sup>7</sup> Different forms of regeneration support were required that stimulated new services and local employment both in and for deprived areas.

Recognising that serious barriers existed such as a low skills base in those areas, the emphasis was very much on capacity building and training, to move people towards a position where they could create new enterprises that satisfied real need in their communities and provided good jobs, skills and wages. The benefits would include a higher local multiplier effect than other regeneration programmes, as a greater proportion of income would be spent by local people in their communities and benefit a range of other local services, so contributing to the longer-term development and sustainability. This approach gained significant and rapid support through the EU institutions as community economic development became a major funding programme under ERDF Objective 2, Priority 3 measures.

Other support for social enterprise is now in place with the government setting up the Phoenix Fund through the DTI to stimulate new businesses, including social enterprises in deprived areas, tax concessions for investors in social enterprises, and a new legal structure, the community interest company (CIC) that allows both ease of set up, like any mainstream company, while having special features to ensure profits and assets are used for community benefits.

Clearly there has been a powerful political impetus behind social enterprise but, mainly, from the top down rather than the bottom up. In other words there seems little organic development, building on local organisations’ experience of service delivery, or of strong traditional models like workers co-operatives. Rather, the main drivers have been a core group of Blairite think tanks married to influential networks of support agencies like Social Enterprise London. These looked to external and, not necessarily representative or transferable models of social entrepreneurship, but ones which chimed with the Blair government’s broader objectives for alternative provision of public services and the building of an entrepreneurial culture.

That is not to say that such local provision did not exist. There was legacy of co-operatives and voluntary organisations in the UK that married social provision with successful trading operations, and these were cited as potential models for further development of social enterprises. But the over-riding impression is of a bandwagoning effect in response to the government’s assertion that a ‘Third Way’ could, indeed must, be found for public provision.

With regeneration funding like ERDF available, the government and key advocates insisting on social enterprise as the wave of the future, and an extensive agency support network being set up, it is not surprising that many organisations, particularly in the voluntary and community sector, would look to re-brand themselves in order to gain access to funding and institutional support.

### The Scale of Social Enterprise

What are social enterprises in practical terms, that is, in which areas of economic and social activity are they involved, what is their scale and their importance within the overall economy?

The following list is not meant to be exhaustive but gives some flavour of the range of activities usually included:

- Social care/Child care/Health care
- Community arts
- Sports/Recreation facilities
- Community transport
- Recycling/Renewable energy/Environmental improvement
- Community Cafes/Shops
- Social Housing/Insulation & Repair
- ILM organisations/training/managed workspace

As mentioned earlier, the DTI commissioned national research that has recently been published.<sup>8</sup> Previously, there had been widely different estimates of the number and scale of social enterprises, but based on a nationwide telephone survey, the report suggested that there were 15,000 organisations that could be classified as social enterprises in the UK – 1.2% of all enterprises, employing 475,000 people and generating £18 billion turnover, of which £14.8 billion was from trading activities.

Predominantly, these were service based, with health and social care representing a third of the total. In fact much of the trading activity appears to be in sectors associated with public sector delivery including health care, social care, childcare and training. This raises questions of whether these services are funded through contracts with public bodies or from income raised or earned from other sources, especially as many of these services were offered free or at low cost to recipients.

A related issue is one of scale, as half of the total had only 10 employees or less compared to only 2% with 250 or more. An obvious question is how sustainable some of these organisations are since no assessment was made of financial viability nor, of course, on attrition rates of failed social enterprises.

Where information is readily available it tends to be on the larger and high profile organisations. Table One provides a summary of some of these, illustrating how they have evolved from a variety of backgrounds including local authorities, and community and voluntary organisations but they share a general ethos to move from grant dependency to financial independence, while maintaining their commitment to social purposes.

Table One

<b>Leading Social Enterprises</b>
<p><u>Wise Group</u> Established in Glasgow during the 1980s to help long-term unemployed back into work through construction and environmental projects. Expanded into a training organisation that employs 350 staff working in Scotland and the North East, and funded by EU, local authorities, local businesses and central government.</p>
<p><u>Create</u> Established in Liverpool in 1996 and describes itself as a social business, providing training and work opportunities, mainly for people from the Speke/Garston area, by recycling used electrical products and selling them on to low income households. It has a turnover of £1million last year, 55% from the sale of products, 42% from training contracts and only 3% from grant income with 26 full-time permanent staff and 50 on short-term training-related contracts.</p>
<p><u>Greenwich Leisure Limited</u> Established in Greenwich in 1993 as a response to government cutbacks to local authority leisure services. A not-for-profit solution was considered by the council to gain access to grants and external funds not available to the local authority so it was set up as an Industrial and Provident Society. The service has expanded significantly through contracts with other London and South East boroughs providing municipal leisure services and it now has over 800 full time staff and 2,000 part-time staff and a turnover of £35 million.</p>
<p><u>Hackney Community Transport</u> Established in Hackney in 1983 offering community bus service but expanded into mainstream service provision under a contract with London Transport. It now runs three main bus services and a range of other community transport projects. 320 people are employed and grant income has declined from 70% of its income in 1982 to less than 3% last year.</p>
<p><u>EAGA Partnership</u> Established in Newcastle in the early 1990s with the main aim of helping low-income households' energy needs such as loft-insulation. It has expanded from its Newcastle base to run the government's warm front scheme that offers grants to low income families. EAGA employs over 700 people on insulation and central heating installation and has a turnover of £250 million.</p>

However, their expansion has depended to a large extent on public procurement, either through contracts for training, or the delivery of services involving central government, local authorities and other public agencies. While these organisations would stress the innovative character of their work, compared to mainstream agencies, the fact remains that they are part of public sector provision.

Another facet that deserves some comment is how many of them display the characteristics of traditional co-operatives. Yet the term is hardly ever used, presumably because of its associations with Old Labour, and because of the Blairite emphasis on entrepreneurial innovation rather than democratic accountability.

In contrast to the limited number of leading social enterprises there is a far larger number of smaller social enterprises for which information is still patchy despite this new research. Issues here include the balance between social and economic activity; the proportion of trading against other forms of activity; and the relationship between grant and trading income – hence the use of the term ‘hybrid social enterprise’ to identify some of these possible tensions.<sup>9</sup>

So despite the general perception of a rapid growth in social enterprise activity, serious questions remain over their real significance both to the overall economy and to the areas of social deprivation that they serve, even taking into account social auditing that attempts to gauge wider community benefits.

### The Future of Social Enterprise

For proponents, the success of these larger scale organisations proves how effective social enterprises can be. The major issue now is to build on this through the opening up of public procurement on a wider scale, especially major institutions like local authorities and the NHS responsible for billions of pounds worth of contracts, but which are criticised as reluctant to look beyond their, mainly private sector suppliers, because of (unwarranted) concerns that social enterprises lack financial viability and scale.

A fundamental but generally unacknowledged question is how social enterprises are expected to operate in the context of the privatisation of many public services and the marketisation of activities within the remaining public sector. When central government has introduced what is effectively a sea-change in the structure of public services that automatically favours private industry over the public sector such as the Private Finance Initiative (PFI), and two-tier systems like foundation hospitals and academy schools that abandon equity of provision; it is difficult to see how social enterprises can address issues of social purpose unless they first satisfy criteria of financial viability, efficiency and profitability in similar ways to the private sector.

This could seriously alter existing consensual and sympathetic relationships between the public sector and not-for-private profit service providers. Logically, it could also mean the encroachment of private sector companies into services previously delivered by the voluntary and community sector.

For small-scale organisations in the voluntary and community sector that serve a particular group or community, those same market values and entrepreneurship are being emphasised above social purpose and democratic accountability. Much is made of moving from grant dependency to financial self-sufficiency and, if possible, a trading profit. But the vast majority of these organisations do not trade in any recognisable form, or their trading activities that can be exploited financially are small, or relate to work with some of the poorest members of the community. If organisations work with vulnerable and marginalised groups, even if it were possible, would it be acceptable to generate a financial surplus in this way?

The answer to that question is a simple no, and the logical conclusion is that the vast majority of voluntary and community organisations are not social enterprises and should never be constituted as social enterprises. (Conversely, the pressure exists on the social

enterprise agency network to achieve targets that could lead to some highly dubious classifications, for example, sole traders to be given support as social enterprises if they can make any sort of case that their trading has social value.)

In the context of marketisation it becomes increasingly easy to create a climate where voluntary and community groups feel compelled to move to a social enterprise structure for opportunistic reasons, and then can easily be blamed for not showing sufficient 'entrepreneurial spirit' if they run into difficulties. The real issue is consistent and stable funding in order to provide a good service.

### Alternative Models of Social Economy

Here it is worth referring back to the original vision of social economy that Pearce and many others from the co-operative movement put forward.<sup>10</sup> For them it was a radical one that would create an alternative to globalisation based on a range of local provisions, including food, energy, housing, transport, etc, supported by credit unions for local finance, possibly through alternative currencies, and Local Exchange and Trading Schemes (LETs). However utopian it might sound in the present political climate, the fact that social provision was the absolute priority signposted how the social economy should evolve.

Under a more supportive political framework we might also look to other alternatives that echo radical ideas from the 1970s around democratic ownership and real economic power. We use the term Locally Owned Public Enterprise (LOPE) here, as one possible alternative. These would be locally owned through municipal/community structures with substantial financial backing, clearly accountable to representative public bodies and provide core/essential tradeable services to their communities. Such a structure would be directly against the grain of privatisation because it would actively seek to bring back into local public ownership services such as water and public transport while supporting the expansion into new areas of technology including community-based renewable energy systems that satisfied a large proportion of our energy needs.

LOPEs would work to a public ethos of service provision but would have long-term contractual relationships with the municipal authorities that incorporated social goals such as the training and employment of marginalised groups but also some flexibility in the delivery of those services, (hence the retention of the term enterprise in the context of public provision).

Clearly, this is not on the political agenda and unlikely to be so, but it would seem much more in tune with the original vision of the social economy and raises serious but practical issues around ownership structures, funding and financial resources for municipal authorities independent of central government control, allied to the training of public enterprise managers, and accountability to local communities.

### Conclusion

What we need right now is not the heroic entrepreneurial individual who performs miracles on a shoestring budget and against insurmountable odds but a cadre of solid citizens, well-educated public servants that could run important, properly funded local

public enterprises efficiently and with a public sector ethos. There would still be scope for social enterprises in other trading activities under a strict interpretation of what constitutes a Community Interest Company. However, a clear distinction needs to be drawn between these and the broader voluntary and community sector that works with marginalised groups and has no substantial trading activities.

Prospects for radical policies may seem so far off the political radar as to be invisible, but we desperately need a real debate about the meaning and structure of the dominant model of the social economy emerging through the social enterprise movement and on possible alternatives because there has never been a time when local communities have less control over the economic decisions which impact on their quality of life.

Over the years, with the privatisation of key services, the erosion of local municipal power and the acceleration of market principles in the public sector, real economic power has moved into the private sector or to unaccountable quangos. Even organisations like the Post Office, nominally in the public sector, now operate on the basis of individual profit centres, and have abandoned the concept of social purpose so that local post offices can be closed down on the grounds of 'efficiency' as management seeks to capitalize on property assets.

There are real dangers with the headlong rush toward social enterprise that could actually damage the capacity of the voluntary and community sector to work with disadvantaged groups and communities; while undermining the vision of social economy as a radical alternative to present trends of privatization, marketisation and globalisation. As things stand, the Social Enterprise Coalition may well be significant in 20 years time not for sitting alongside the TUC and the CBI but as a subsidiary of the latter.

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- <sup>1</sup>. *Observer*, 24/10/2004.
- <sup>2</sup>. Centre for Local Economic Strategies (CLES) – *Understanding Social Enterprise*, Local Work, May 2004, No 57, p. 3.
- <sup>3</sup>. *Ibid.*
- <sup>4</sup>. Social Enterprise London, *Introducing Social Enterprise*, SEL, 1999. ([www.sel.org.uk](http://www.sel.org.uk))
- <sup>5</sup>. DTI, *Enterprise for Communities*, 2003.
- <sup>6</sup>. Charles Leadbeater, *The Rise of the Social Entrepreneur*, Demos, 1997.
- <sup>7</sup>. European Commission, *Social and Economic Inclusion Through Regional Development : The Community Economic Development Priority in European Structural Fund Programmes in Great Britain*. (1996).
- <sup>8</sup>. IFF Research Ltd, *A Survey of Social Enterprises Across the UK*, Small Business Service, 2005.
- <sup>9</sup>. Cathy Pharoah, Duncan Scott and Andrew Fisher, *Social Enterprise in the Balance – Challenges for the Voluntary Sector*, Charities Aid Foundation, 2004.
- <sup>10</sup>. John Pearce, *Social Enterprise in Anytown*, Calouste Gulbenkian Foundation, 2003