Third Sector Research Centre

Working Paper 15

Outsider, missing link or panacea? Some reflections about the place of social enterprise (with)in and in relation to the Third Sector

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Contents

Enter title

Abstract

The paper argues that visions of social enterprise and its relationship with the third sector vary significantly from those that loudly or silently see social enterprise as conventional businesses and therefore as 'outsiders' to the third sector to those that see them as the 'missing link' between the third sector and markets and even as a 'panacea' to solve social problems. The paper critically examines these views in the UK context and concludes with some policy considerations in relation to the place of social enterprise within the third sector and future policy scenarios.

Keywords

Social Enterprise, Third Sector, Public Policy.

Rationale

Social enterprise (SE) has gained considerable interest in recent years both in the UK and internationally despite the widely recognised lack of agreement as to what exactly SE is, what it does and/or represents and how it can be best promoted and supported (Borzaga and Defourny, 2001; Bridge et al, 2009; Nicholls, 2006; Peattie and Morley, 2008). This paper focuses on the place of the SE (broadly defined as 'businesses that trade for social purposes') within the UK third sector. The third sector (TS) comprises a range of organisations that are neither private ('first sector') nor public ('second sector') including community based and voluntary organisations, charities, self-help, family and informal economies and social enterprises (Pearce, 2003). The paper argues that the relationship between SE and the TS is not an easy one to the extent that some commentators do not consider SE as a part of the TS.

In fact, one of the reasons that inspired the topic for this paper was that, while looking for publications relating to SE in academic journals associated with voluntary and third sector studies, the author was surprised by how little interest in SE there seems to be - between January 2000 and June 2009 (when the search was conducted) only two articles which used 'social enterprise' or 'social enterprising activity' in the title were published in *Voluntas: International Journal of Voluntary and Non Profit Organisations* (Lindsay and Hems, 2004, vol 15:3; and Kerlin, 2006, vol 17:3 (plus one book review of a book which title comprises the 'social enterprise' term) and none in the *Non profit and Voluntary Sector Quarterly* – there were two book reviews to report here though. This symptomatic elusion of the 'social enterprise' term contrasts with the growing interest in the field observed in academic journals specialised in Business and Management, Economic Geography and Public Sector and Policy studies, and not only suggests that the unnamed social enterprise entity is somehow seen as an *'outsider'* to the third sector but that this view is deeply rooted among scholars concerned with the non profit, community based, voluntary and third sectors.

Now, the question is how such a big omission can be possible. After all there were plenty of articles on earned income, trading, commercial or social enterprising types of activities in these journals which just are not called (or are related to) social enterprise. Also, how can this be possible when, for instance, the National Council for Voluntary Organisations (NCVO) itself in 'The UK Civil Society Almanac 2009' concludes that

> *'social enterprise is, in fact, the primary source of income for many types of civil society organisations with £82 billion (71%) of the total incoming resources of civil society, being earned through enterprising activity'* (NCVO, 2009:4)

and that,

> *'although voluntary income* [for 'general charities'] *continues to growth in absolute terms, earned income* [often related to SE activity] *is growing more quickly'?* (ibid:3)

A first and obvious observation here is that a huge gap exists between the symbolic universes of those voices concerned with SE and those concerned with the voluntary and TS which does not allow the latter to see common points between the two.

There are at least two additional reasons for choosing to scrutinise the relationship between SE and TS. From the theory point of view, if it is accepted that the element that defines the quintessence of SE is its social mission and values (see Arthur et al, 2006; Nicholls and Cho, 2006; Nyssens, 2006; Pearce, 2003; Peattie and Morley, 2008), then it must also be recognised that it is largely within the third sector where social values and goals have traditionally prevailed. No judgments will be made at this stage regarding the difficulties involved in defining 'what is social' in the SE context (see Lyon and Sepulveda, 2009; Arthur *et al*, 2006; Smallbone *et al*, 2001). It has also been argued that there is increasing evidence of a transition *'from third sector to social enterprise'* which is taking place in several Western European countries (Defourny, 2001) and that SE seems to be blurring the boundaries between non-profit and for-profit activity (Dart, 2004). Not surprisingly, while these developments within the TS movement have been endorsed by the New Labour government (Carmel and Harlock, 2008; Kendall, 2009), they have also generated concern among some voluntary and third sector stakeholders as SE is somehow portrayed as representing business-like values and principles which are in opposition to volunteering and charitable values and philosophies (Eikenberry and Kluver, 2004; Carmel and Harlock, 2008; Kendall, 2009).

Three broad views on the relationship between social enterprise and third sector can be distinguished based on the analysis above. Firstly, those views that loudly and silently see SEs as *'outsiders'* to the third sector as, despite their claimed social goals, SEs are seen as conventional profit-driven businesses. Secondly, those views that recognise the fact that SEs play a role within the voluntary and third sector, notably building links between 'traditional' organisations and trading cultures and markets, hence the *'missing link'* metaphor. Finally, those views that see SEs as potent organisational devises to address social needs and problems through a more financially sustainable, efficient and viable 'business-like' approach which traditional voluntary and third sector organisations often lack; hence the idea of SE as both an alternative to traditional non-profits and third sector (Dart, 2004) and a *'panacea'* to address social problems.

These positions can be related to those views that see SE as *'a particular organisational form'* which is part of the TS but at the same time is different from other TS organisations e.g. voluntary and community organisations (Pearce, 2003); those perhaps less ideologicalised views who see the whole range of TS organisations as social enterprises (Paton, 2003); and those views which adopt a broader and less controversial understanding of social enterprise as *'a form of activity'* (NCVO, 2009). The latter avoids linking SE to a particular organisational form within the third sector and thus the SE label could be applied to any TS organisation providing that part of its income is earned income. A more conciliating view is that of Defourny and Nyssens (2006:7) who see SE as *'a tool for building bridges between distinct components of the third sector'*. In order to understand this range of views within the UK context it is necessary to dig into the origins of the TS and SE and the relationship between them.

Locating social enterprise within the UK third sector

This section examines the origin of the relationship between the third sector and social enterprise in the UK context. It begins by analysing the emergence of the TS concept.

Third Sector

The third sector concept is intimately linked to the New Labour Government – although the idea of 'sector' came from the 1978 Wolfenden Committee report (Kendall, 2009). Since its early days New Labour embraced and promoted the 'voluntary and community sector' (VCS) as it was seen as embodying some key values embraced by New Labour which contributed towards developing an alternative sociopolitical philosophy to socialism and neo-liberal market economy. However, it was not until the 2005 HM Treasury discussion paper that the third sector replaced the VCS as the preferred official nomenclature. According to Carmel and Harlock (2008), this document 'provided a clearing ground for the articulation of a single, recognisable and exclusive terrain'. The rather permissive definition of the TS accommodated within it what Kendall (2009:6) refers to as *'the range of ideological socio-cultural 'types' of third sector organisations'* (i.e. Labourism and the co-operative tradition on the Left) including organisations which previously were not included in the definition of voluntary and community sector such as co-operatives, mutuals and social enterprises.

Social enterprises, up until that point, were in fact *'institutionally dealt with as businesses, and part of the market, rather than the third sector'* (Carmel and Harlock, 2008:160) - in 2002 the government had established the Social Enterprise Unit at the former business Department for Trade and Industry (DTI) and produced an ever influential social enterprise first manifesto entitled 'Social Enterprise: A strategy for success' (DTI, 2002).

The point here is that the new third sector attempted to accommodate the principles of the market economy widely embraced by New Labour (Carmel and Harlock, 2008). As Haugh and Kitson (2007:11) explain,

> *'the focus on markets as being allocatively efficient has led to attempts to 'marketise' (the adoption of markets or quasi-markets) the public sector. This has opened up opportunities for different delivery mechanisms for firms in competition with one another, and signalled the way for third sector organisations to work in partnership with the government, or other providers, to deliver public services'.*

Carmel and Harlock (2008:160) rightly caution that despite its reference to *'value-driven'* (HM Treasury, 2005), the definition of the new TS also *'renders these values politically and socially neutral'*. This observation is crucial to understand the ideological anchorage of the idea of 'neutrality' and its policy implications, which is typified in the government's push to promote *choice* in service delivery and public contract agendas among the third sector and social enterprise. Curtis (2008) in this sense observes that contracting and procurement have become the very mode of delivery of services for social enterprise and this is based on an individualised conception of 'technical' need:

> *'Decisions about the provision of social services are depoliticised through technocratic procurement processes. The misconception is that procurement and contracts are morally and politically neutral, and are based on rational decision-making process. What really happens is that hidden political process are mediated through the contracting activity (specifically through the design of tenders and contractual conditions), which is open only to professionals (or the beneficiaries by consultation only) excluding democratic process and transparent governance'* (Curtis, 2008:282-3).

To summarise, the 'third sector' construct became an integral part of the dominant discourse, in particular for the role that this and SE can play in, service provision (notably through 'partnership' with

the public sector), to assist in public service reform and to create a competitive market of service delivery providers (Cabinet Office, 2006 a, b). Overall, it seems that the institutionalisation of the third sector represented an attempt to engage the whole sector in 'a political project' which was forwarded by powerful government Departments (e.g. HM Treasury and Cabinet Office; Home Office) but could be also associated to leading TS bodies as well as prominent voices within the social enterprise movement (Carmel and Harlock, 2008). The New Labour political stance has thus enabled the third sector

> *'to move from the economic margin towards the mainstream [...] which now plays an increasing role in economic, political and social life'* (Haugh and Kitson, 2007:3)

and this does not seem to contradict the position of the main opposition party as the Conservatives have also embraced the official TS and SE agendas within their discursive repertoire (Conservative Party, 2008).

Social Enterprise

The first official mention of the SE concept was in a HM Treasury 1999 report in relation to the National Strategy for Neighbourhood Renewal. This report stressed the role of SE in service delivery particularly in deprived areas and communities, preparing unemployed people for work and economic development, by promoting an enterprising or business culture among the disadvantaged. In October 2001 the UK Government launched a Social Enterprise Unit within the DTI (now BIS) and in May 2006 this was brought together with the Active Communities Unit in the Home Office to form a new Office of the Third Sector (OTS). The 'Social Enterprise Action Plan: Scaling new heights' was launched by the OTS the same year.

Arguably, the relocation of SE from the sphere of the major business department to the Cabinet Office and the OTS constituted a highly political-strategic move engineered by dominant forces within the New Labour Government and whose purpose ultimately was to promote the 'business model' within the voluntary, non-statutory and third sectors through an 'insider'. From this paper's perspective, this politico-ideological move constituted the foundational moment of the view that sees SE as a *'panacea'* to fulfil the TS social mission or, in other words, to solve endemic financial problems faced by traditional voluntary and third sector organisations derived from its dependency on grants, subsidies and donations dependency. The cure for this in turn is represented by the need for a strong enterprising and business culture which can lead to efficiency, financial sustainability, accountability and so on.

The problem is that this move toward SE has proved highly controversial within the voluntary and third sector movement, particularly at a grass roots level. The debates generated in relation to the place of SE within the third sector have recently been echoed in a public controversy which involved two leading figures of the social enterprise movement (Third Sector, 2009). In this article Jonathan Bland (chief executive of the Social Enterprise Coalition – SEC-) and Liam Black (a founder of and a former ambassador for the SEC) debate the purpose of social enterprise and whether it is mainly to *'provide a social good'* (and that therefore SE represents a different 'third sector' model which should be separated from the traditional business model) or instead to *'promote a business model which keeps wealth in the hands of communities'*. Bland understands that it is not enough to persuade
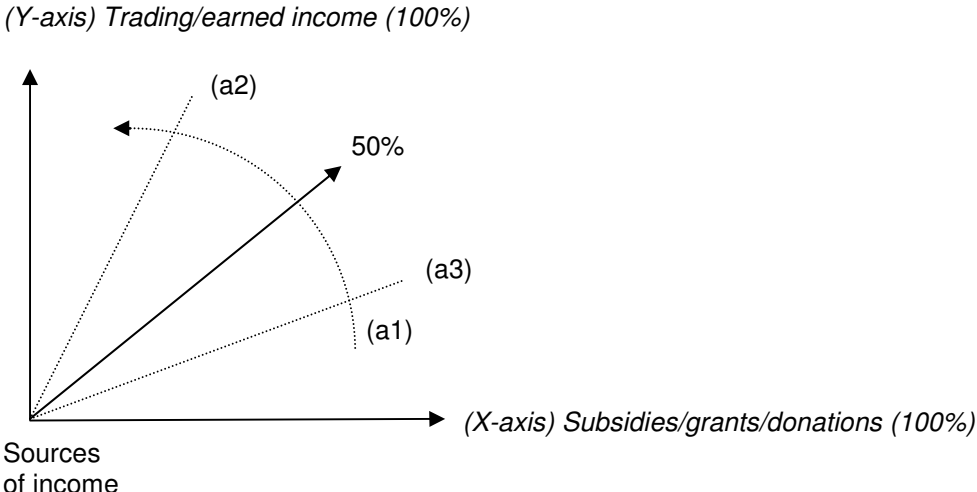
existing businesses to conduct themselves in a more ethically and socially aware way but the SE movement needs to persuade the economy as a whole to take up more social models in the future. Black instead contends that it would be more useful if the role of the SE movement were to encourage all businesses to run their ventures in a more ethical and socially responsible way. He also claims that it was a strategic error to limit the definition of SE to a business that has both social purpose and limits on profit distribution written into its constitution. Black bases his argument on the fact that the SE model *'is difficult to grow'* under the constrained definition of SE and that likewise *'many private entrepreneurs want their business to create social values'* and they should not be restricted to do so.

The paper's view on this issue is that Black's argument is gaining political terrain within the SE and TS movement and that the more it does so the more tensions (if not cracks) will arise between SE and grass-roots TS stakeholders. That said, if the SE movement is capable to influencing commercial businesses to behave in a more ethical, socially and environmentally responsible fashion its legacy will be much appreciated, no less among TS stakeholders.

Social enterprise: In or out of the third sector?

This section discusses some final reflections concerning the relationship between social enterprise and third sector, public sector and private enterprises. Figure 1 below will serve to illustrate the different scenarios that emerge if this trend towards increased earned income intensifies in the near future. The figure describes different hypothetical scenarios ranging from that in which organisations rely entirely on grants, subsidies and donations (*X-axis* - on the bottom right) to that in which they rely entirely on trading or earned income (*Y-axis* - on the top left). As seen, the empirical trend observed among organisations is that social enterprising activity is becoming increasingly important (NCVO, 2009), and that organisations one way or another are incorporating the SE model by moving from 'a3' to 'a2' scenarios.

Figure 1. Trading among SE and TS organisations by source of income

(Y-axis) Trading/earned income (100%)

Now, a first proposition here is the possible distinction between organisations in which more than 50% of their income derives from trading ('a2' arrow) and those organisations which earned income via trading representing less than 50% of their income ('a3' arrow). The former could be deemed as a distinctive type of organisation, or 'social enterprises' strictly speaking, while that latter could be

considered as a particular type of activity, e.g. trading or 'social enterprising activity' - which could be carried out by e.g. voluntary and TS organisations. Two different batteries of policies for these broad target groups may be required, one to promote trading activity among TS organisations and the other to sustain and make it grow. Legislation should recognise this difference as it may have an impact i.e. in terms of investment needs, resources required, and the use of profits generated. The presumption is that mainstream enterprise policies (e.g. aimed at SMEs) are more suitable (not directly transferable though) to support SE growth rather than SE start up activity.

Although this trend toward increased earned income has been welcomed by key TS and SE bodies this paper sustains that it may further stretch the already existing tensions within TS organisations and SEs themselves, notably the marketisation of the third sector and the tensions between the 'business model' (and its economic imperatives) and 'the social' part of SE social mission (Arthur *et al*, 2006; Hudson, 2005; Seanor *et al*, 2007; Eikenberry and Kluver, 2004; Salomon, 1997). Arthur *et al* (2006:2) in this sense observe that, in the UK,

> '[t]he position that has been legitimised is one where the tension between social and enterprise aims is not just one that has to be managed, but has moved toward one that if the business activities are a success in the market it will follow that the social aims will in essence take care of themselves'.
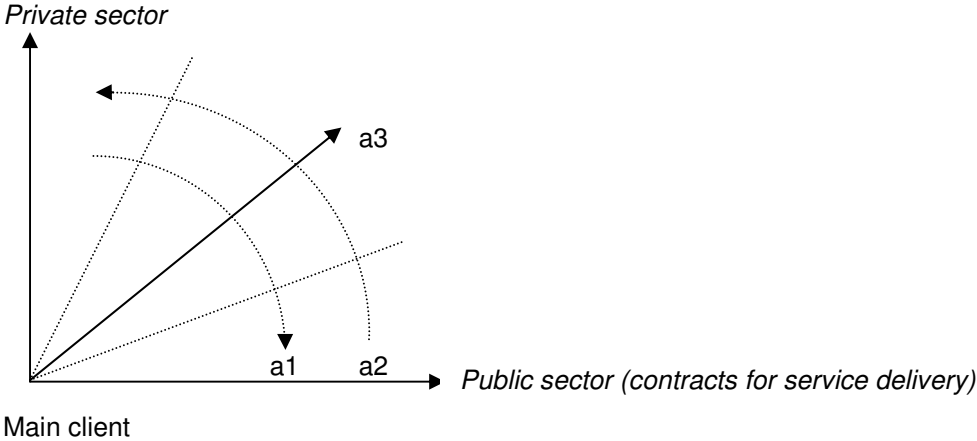
Hence if the trend toward greater trading continues, one of the key areas for policy intervention should be aimed at controlling the appearance of possible negative effects of the trend and, if they appear, to manage and contain the potential conflicts that generated. If social enterprise is to stay under the third sector's umbrella or more precisely under the umbrella of the Office of the Third Sector, mechanisms should be set up in order to monitor and control 'bogus' SEs that may be using the SE logo (and legislation) in order to maximise individual gains (in other words, cheating), that is, even in those cases when organisations have clear social or environmental aims and benefit the community. The presumption here is that the third sector is better placed than the business sector to exert this type of control on SEs.

A second proposition is that the more organisations rely on trading to fund their operations the more they are likely to be affected by forces that may push them beyond the boundaries of the TS (i.e. by bridging regulations, generating internal conflicts of governance, delegitimizing themselves among beneficiary groups and volunteers, etc). These forces can be called 'centrifugal forces'. Likewise, the more the TS sector incorporates the business model and values, the more commercial 'for profit' businesses may be attracted to the third sector i.e. in the search of tax heavens, for marketing purposes or genuine social and environmental concerns. These forces can be called 'centripetal forces'. The TS legal and regulatory framework should consider these issues as while the first trend above may not affect the dynamic of the whole TS the second may, as unlike in the US, the UK third sector has historically been less permeable to these types of influences.

The final proposition relates to the relationship between SE/TS and public and private sectors considered as their 'main clients' (see Figure 2). The main assumption is that the final client of SEs and TS organisations is mainly the public sector and less so the private sector. It is however recognised here that some inter-TS trading and subcontracting does take place but, and for the foreseeable future, it is still marginal. Figure 2 below describes two scenarios in relation to the main

source of income of SE and TS organisations; the 'a1' arrow represents a hypothetical starting point in which organisations have a given level of trading with both public and private clients and the 'a2' arrow represents a second point in time characterised by the increase of the total volume of trading with both sectors (along the 'a3' arrow).

Figure 2. Trading among SE and TS organisations by type of client

Private sector

Main client

    In the event that this occurs, and say trading reaches a point in which it is worth more than 50% of the total income of the whole sector, tensions could arise amongst competing economic actors – more likely private companies which have lost public contracts to SEs or TS organisations resulting in displacement and revenue loss. Although *'the SE sector has become a creature of public funding and an alternative to in-house public services'* (Peattie and Morley, 2008:43), the UK public service industry still remains largely dominated by the private sector (Lyon, 2009) and therefore this issue is not yet a major problem – despite certain problems relating to EU regulations which regulate public procurement decision-making processes involving large contracts. The question in place here is how vested interests around this *status quo*, which the state may find itself confronted with, particularly if social enterprises manage to scale up into the public sector contracting chain and become first-tier subcontractors, are likely to respond. Presumably SE and the TS may be denounced on the basis of its rent-seeking behaviour, unfair competition, and for being quasi public sector organisations. The state in turn may presumably be criticised for giving priority to potential political gains within the SE and TS movements' electorate and therefore for politicising the otherwise 'transparent' (neutral) public contract market. The public sector may therefore require a policy response to deal with this problem.

    One hypothetical scenario which may help to avoid this conflicting situation is that new markets for service delivery and contracts open in the public sector – and so it turns into a non- zero-sum game. The scope for this is however very limited and it will probably mean additional short-cuts in welfare provision and further transfer of responsibilities to the third sector which are essentially state responsibilities (Hudson, 2005, 2009; Amin, 2009). The morality of a development like this not only is highly questionable but is also unacceptable considering the existing and growing bulk of unsolved social needs and problems particularly in the current context of economic crisis.

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About the Centre

The third sector provides support and services to millions of people. Whether providing front-line services, making policy or campaigning for change, good quality research is vital for organisations to achieve the best possible impact. The third sector research centre exists to develop the evidence base on, for and with the third sector in the UK. Working closely with practitioners, policy-makers and other academics, TSRC is undertaking and reviewing research, and making this research widely available. The Centre works in collaboration with the third sector, ensuring its research reflects the realities of those working within it, and helping to build the sector's capacity to use and conduct research.

Social Enterprise

What role can social enterprise play within the third sector? This work stream cuts across all other research programmes, aiming to identify the particular characteristics and contribution of social enterprise. Our research includes theoretical and policy analysis which problematises the concept of social enterprise, examining the extent to which it can be identified as a distinct sub-sector. Quantitative analysis will map and measure the social enterprise sub-sector, and our qualitative case studies will contain a distinct sub-sample of social enterprises.

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