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Chapter 15

Social Enterprise Support Policies: Distinctions and Challenges

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Chapter Summary

This chapter examines the support infrastructure for a specific segment of the SME market, namely social enterprises. The first section briefly examines the different definitions of social enterprise found in different countries. There is a spectrum of types of organisations ranging from commercial enterprises with social objectives, to voluntary or community sector organisations that have an element of trading activity. The second section discusses the rationales for public sector interest in support, examining how this differs between countries and over time. Particular attention is given to the emergence of social enterprise policies in the UK. The third section examines the different types of support that are commonly provided. This includes: encouraging social entrepreneurship and attitudes to starting a social enterprise; training and advisory services for start ups and for those wanting to grow or survive; social investment and finance; social enterprises and public sector procurement; and the transfer of public assets to social enterprise organisations. The final section examines the challenges of evaluating the effectiveness of these

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1 The support of the UK’s Economic and Social Research Council (ESRC), the Office of the Civil Society (OCS) and the Barrow Cadbury UK Trust is gratefully acknowledged. The work was part of the programme of the Third Sector Research Centre but all views are those of the authors.
policies. Since social enterprises provide a combination of social, environmental and financial objectives, evaluation measures have to address both economic benefits and broader social value.

**Introduction**

Social enterprises are often presented as alternative approaches to delivering benefits to communities, linking both the themes of enterprise and social inclusion (Peattie and Morley, 2008, Borzaga and Defourny 2001). This interest has resulted in a wide range of policy measures across the globe aimed at helping those setting up and running social enterprises. This chapter introduces the concept of social enterprise and discusses how the term is evolving in different contexts. It also examines the support policies that have been developed in different countries.

There are a variety of types of organisations that have been brought under the umbrella term 'social enterprise' in order to form a coalition of similar organisations influencing policy agendas. A common definition used is that developed by UK’s Department for Trade and Industry in 2002: “A social enterprise is a business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profits for shareholders” (DTI 2002:7). They are differentiated from the conventional private sector by having social and environmental aims as a core mission. Social enterprises can originate from a variety of sources. Some may be new start ups trading as enterprises from the beginning (such as a community nursery or café), while others who start as voluntary sector organisations or charities with income from grants or donations, may develop trading enterprises. Thirdly, there are a small number of cases where
social enterprises have come about through transfers from public sector. Examples of this are found in the UK and include housing associations, leisure services or the recent trend of encouraging people in the health services to ‘spin out’. Finally, social enterprises can evolve from conventional private sector for-profit organisations that shift their objectives to take on primarily social aims.

Social enterprises, it is argued, have the potential to transform communities and find solutions where others cannot (DTI, 2002, HM Treasury 1999). Successful cases studies have been shown to have a range of possible benefits, including: providing quality and accessible services; finding ways to deliver where the state or market cannot; understanding the needs of the community; mobilising community members; providing community support through volunteers; building ‘social capital’ in a community; creating local employment and training; and retaining wealth within a community (Lyon 2009).

Social enterprise has become a truly global phenomenon in recent years. Over the last fifteen years, it has moved from its past modest position on the fringes of social and economic development policy to occupy an increasingly important position within wider debates on social and economic development and state reform. This trend can be observed in the northern and southern hemispheres and from East to West (Defourny and Nyssens 2010, Kerlin 2009, AISMER 2007).

For example, the European Commission has created the European Council of Associations of General Interest which has been developed to integrate and support social enterprises and the social economy more generally. Social enterprise policy documents have also emerged from multilateral organisations including the OECD (Mendell and Nogales 2009). The regional banks of the World Bank Group
operating in less developed countries (such as the African Development Bank, the Asian Development Bank and the Inter-American Development Bank) have all established social entrepreneurship related programmes for economic and social development activities. The Inter-American Development Bank, for instance, claims that it has supported projects that fall under the rubric of ‘social enterprise’ since the Small Project Fund was created in 1978 to support income generating nonprofits and cooperatives (IDB 2010).

**Types of Social Enterprise**

The definition of social enterprise is strongly debated, and in many countries it has been kept ‘loose’ and open intentionally to allow a range of organisations to be included within a widening social enterprise movement umbrella. However, many organisations may claim to be social enterprises when they are predominantly motivated by profit for owners (for example within the private/commercial sector) and many organisations that meet the definition (typically within the voluntary and third sectors) may not like the language of enterprise and therefore reject the label (Lyon and Sepulveda 2009). The range of types of social enterprise can be seen as a continuum from the more profit oriented to the more socially oriented, with organisations demonstrating hybrid natures drawing on both the voluntary/community sector and business models. There is agreement among scholars that the element that defines the quintessence of social enterprise is its social values and mission (Peattie and Morley 2008, Nicholls and Cho 2006, Nyssens 2006, Pearce 2003). However, what is or can be considered ‘social’ and what is not is a matter of hot debates and a very politically sensitive issue as well (Dart, Clow and Armstrong 2010, Arthur, Keenoy and Scott Cato 2006).
There are also discernable differences both within and between countries regarding the definition. In particular there are differences with regard to the importance of democratic governance and profit distribution. In the US, there has been a focus on the entrepreneur with moves to encourage social entrepreneurship rather than a social enterprise form (Defourny and Nyssens 2010:39).

The social enterprise tradition in continental Europe has evolved out of the cooperative movement and so there is a greater emphasis on democracy in the organisation’s governance (Defourny and Nyssens 2010:43). The Work Integration Social Enterprises (WISEs) are at the core of recent developments within continental Europe and comprise cooperatives, mutuals and associations. The aim of policy initiatives within this tradition is to tackle chronic problems of unemployment and worklessness through either the integration of low-qualified unemployed in a productive activity or their access to opportunities for training and work experience (Defourny and Nyssens 2010). The UK draws on the traditions of both continental Europe and US, as the social enterprise movement originally developed out of the cooperative movement. However, the democratic criteria has eventually faded away to embrace a range of organisations that might have a greater role for the social entrepreneur, and to include charitable organisations that are also trading enterprises (Teasdale 2010).

In less developed countries, the term social enterprise is used much less frequently. Non-governmental organisations (NGOs) in Latin America, Africa and Asia often operate on business lines, using income from trading and contracts to deliver public services (Werker and Ahmed 2008, Etchart, Davis and O’Dea 2005).
In India, NGO social enterprises which raise funds through some commercial activity to support their social mission can be registered as a society under the *Indian Societies Registration Act* or as a trust registered under several *Trust Acts* (Edward and Hulme 1996). Similarly, a large proportion of African NGOs use business models to support their activities and mission and can therefore be seen as social enterprises, although the term itself is not widely used. Apart from the work developed by NGOs, it is also necessary to highlight the role in social enterprise development played by the small business sector (Etchart et al. 2005), worker coops (Amin 2010) and fair trade organisations (Murray and Raynolds 2007) in the southern hemisphere.

**Rationales for Public Policy**

Social enterprise has emerged as an innovative institutional response to perceived market and government failure, addressing the needs of the most socio-economic vulnerable and disadvantaged individuals and communities (Amin, Cameron and Hudson 2002, Borzaga and Defourny 2001, Spear 2001). This has been used to justify a range of policy initiatives aimed at scaling up and increasing the capacity of social enterprises.

While much is written on the activities of social enterprises, critical voices question claims made about their potential to fulfil their social or environmental mission (Dart 2004, Foster and Bradach 2005). Others query the financial sustainability of its business model (Hunter 2009) and its innovative capacity to design and deliver public services (Westall 2007).

In the US tradition, social enterprise development is largely related to the long-standing market-based business activities developed by non profits (notably,
foundations). These were initially conducted in order to support the organisations’ social mission but then expanded to goods and services not directly related to their mission - mainly to fill the gap left by substantial cutbacks in federal funding from the late 1970s onwards (Kerlin 2006, Salamon, 1997). In the UK, social enterprise development has been most actively pursued in relation to the development of alternative forms of public service delivery (Cabinet Office 2010, DTI 2002, HM Treasury 1999). This process has been characterised as the ‘social enterprisation’ of former public services (Sepulveda 2009) with a growing reliance on (quasi) market principles of competition, tendering, commissioning and subcontracting (Carmel and Harlock 2008).

Types of Support Policies
In those countries with social enterprise specific policies, a range of different approaches have been set up to support the sector. In some countries, there are specific units with the central government to coordinate and lobby other parts of the public sector. The Office for Civil Society (formerly the Office of the Third Sector) covering England and the US Office of Social Innovation and Civic Participation have been examples of this form of institutional development.

Building Social Entrepreneurship Cultures and Helping Start Ups
Behind all the successful cases can be found entrepreneurs or entrepreneurial teams willing to take risks, think laterally, challenge the status quo and do things differently. Policies to encourage social entrepreneurship aim to raise awareness of opportunities, with programmes aimed at both children (notably within the education system) and adults (publicising the potential of social enterprise).
While awareness raising can encourage people to think about social enterprises, other forms of public policy intervention include advisory services for those starting up organisations and attempts to reduce the barriers of those starting up. There is also an argument for having support to put people off starting an enterprise. A good adviser will spend much time encouraging those thinking of starting an enterprise to think through issues so they are not putting themselves and others at risk. Performance measures for support providers, such as the number of social enterprises started, result in people being pushed into being ‘reluctant entrepreneurs’ who are less likely to be successful (Lyon and Ramsden 2006).

Other support from policy-makers has come from changes to legislative frameworks making it easier to start-up. New laws and regulation have been recently introduced in several countries to legally recognise social enterprises and differentiate them as a new subject of public policy. Examples include the law on Social Purpose Business in Belgium (2005), the Community Interest Company legislation in the UK (2005), the Law on Social Enterprise in Italy (2005), the Social Enterprise Promotion Act in South Korea (2006), and the Finnish Act on Social Enterprise (2003).

Training and Advisory Services

Those wanting to set up or grow an enterprise may lack knowledge or experience and can benefit from advisory support and training. Like business support, research has shown that those receiving social enterprise support prefer a more personalised approach of one-to-one advice, or mentoring rather than training. However, this has considerable cost implications (Lyon and Ramsden 2006). There are innovative ways of reducing the cost through using groups and on-line methods but the
personal relationship is usually preferred. In the UK, a range of social enterprise support providers have evolved, as well as private sector support providers and programmes as part of the Business Link services for SMEs (Hines 2006). In other countries, such as South Korea, there are policies to support social enterprise through subsidised consultancy (Kim 2009). Social enterprises can use mainstream SME support but research in the UK (Lyon and Ramsden 2006) and Canada (ENP 2011) has found that such programmes are not tailored to social enterprise and social entrepreneurs may perceive them to lack empathy and knowledge of their approach.

**Innovation Exchange**

An example of a UK based advisory service is Innovation Exchange that aims to support innovative social enterprises to grow and access public sector contracts. The pilot programme which ran between 2007 and 2010 provided expert advisors who helped social enterprises to develop their programmes and brokered the organisation’s access to key commissioners and politicians. One award winning social enterprise that was supporting children to tackle online cyber-bullying was then able to rapidly engage approximately 200,000 new users and reduce bullying in participating schools by 37 per cent. This resulted in a strategic partnership with Google and several UK government departments (CEEDR 2010).

Where resources are scarce, a key challenge for providers is to target their resources on those they feel are most likely to succeed. How success is defined may vary but can include financial sustainability as well as maximising social and environmental outcomes. However, the process of targeting presents challenges in
terms of ‘picking winners,’ just as it does in mainstream SME policy development (Freel 1998).

**Social Investment and Finance**

Access to finance can be a major constraint, especially for those enterprises that are growing or which intend to grow (SEC 2010, Hynes 2009). Some may be looking for grant finance while others may be interested in loans. As with many smaller enterprises, social enterprises often do not have sufficient assets which can be used as collateral, and mainstream banks may be unwilling to lend. Specific funds lending to social enterprises has been termed ‘social investment’. This can be based on what is termed ‘patient capital’ with less onerous conditions and a combination of loans and grant finance. While these interventions can tackle the supply of finance, there is often resistance from risk adverse trustees or board members to taking out loans for enterprises.

In many countries there are grant programmes to encourage innovation and service delivery. For example, the ‘Chinese Development Marketplace’ initiative, in a partnership with the World Bank, provided US$1.2 million in grants to 50 innovative development projects by nonprofits working on issues of poverty alleviation and the environment, and so supporting innovative business-like solutions to address social problems (Yu 2011). Different degrees of state involvement and provision of financial support to social enterprise development are observed in the EU ranging from north European experiences (including France and Germany), where the state has been more instrumental and supportive to it, to south European experiences (such as Italy and Portugal) where the provision of public
services financed by the state is underdeveloped and civil society organisations have
instead played more instrumental roles in social enterprise development.

In order to meet the gap in access to loan finance, there are a number of
social investment banks (such as Triodos or Charity Bank in the UK) that have
developed products for social enterprises. There are also public sector supported
funds, such as the Social Enterprise Development and Investment Fund in Australia
or the Social Enterprise Investment Fund in the UK. These products range from
grant-like funds to more commercially-focused forms of loans and/or equity finance.
There are also innovative approaches to accessing capital through community
shares and bonds, raising money from local people who may also be users of any
services (Brown 2008). In all of these approaches there is a combination of social
and financial returns, with innovative accounting systems developed to measure
these social and economic impacts.

Social Enterprises and Delivery of Public Services
The public sector can play a key role in sustaining social enterprise by purchasing
their goods and services. Similarly, international donors can purchase services of
indigenous social enterprises and NGOs. The interest in social enterprises from
policy-makers is due to their perceived innovative approaches and value for money,
thereby giving benefits to the public sector and service users alike. In South Korea,
service delivery opportunities have come from the National Basic Livelihood
System Act in 2000 – a form of active labour market policy to support work
integration of the unemployed and disadvantaged (including the elderly and
disabled), and the 2003 social work programme which placed greater emphasis on
the role of civil society organisations as service providers (Kim 2009). In the UK
there has been a rapid growth in outsourcing to social enterprises from the public sector, as well as a policy of transferring assets such as leisure centres from public to social enterprise ownership (Hunter 2009).

Social enterprises offer a wide range of social benefits (economic, social and environmental) and make contributions to a range of public sector goals. However there are particular challenges in changing attitudes of the civil servant officers responsible for commissioning or buying of public services, as they may prioritise short term financial value rather than longer term social impacts when making decisions over who should deliver a service. There are a range of programmes working with public servants to build their understanding of social enterprises (Hunter 2009). Whilst a useful development, there are also dangers for social enterprises from such close relationships with the state. Many organisations are highly dependent on contracts from government and there are risks of changing government priorities or cut backs. Furthermore, the commissioning process (the buying of public services from outside of the public sector) can restrict the very innovation it seeks to support as bidders have to meet the expectations of the commissioners in order to win the contract. Finally, the advocacy role of organisations can be muted as those receiving contracts may be unwilling to ‘bite the hand that feeds’.

**Evaluating Social Enterprise Support**

Assessment of social enterprises is an important issue for government agencies and policymakers. Evaluations need to consider the multiple objectives of social enterprise policy which may combine social, environmental as well as economic objectives. This emphasis on measuring the social and environmental impacts
presents specific challenges to evaluations of social enterprise policies. There is a lack of rigorous evaluation of impact of different policies, despite the scale of the support provided to social enterprises. Evaluations of policies in UK (such as the Phoenix Fund or Capacity Builders) have been carried out soon after programmes have finished. However, there has been limited research on the impact of these policies on the beneficiaries of the social enterprises themselves (Rocket Science 2011, DFES 2005, Ramsden 2005). The lack of clear definition of what is a social enterprise and the lack of clear objectives of policies has also affected the quality of evaluations of support. Furthermore, in many countries, such as the UK, social enterprise policy has also been closely linked to wider public sector reform agendas, particularly those related to opening up public service provision to a range of providers and competitive markets. Again, evaluations may not have explicitly considered the impact (both positive and negative) of such changes to public service delivery and the extent to which social enterprise policy has played a role.

In addition to challenges of defining what is to be evaluated, there are future challenges in measuring the social and economic impacts of social enterprises and the policies supporting them. The instruments and methodologies commonly used to measure social outcomes, such as social accounting and social return on investment (SROI), are currently under intense scrutiny, owing to problems with data gathering and subjectivity bias observed in the evaluation process (Arvidson, Lyon, McKay and More 2010, Leighton and Wood 2010). Furthermore, evaluations of support need to measure both the impact of the support on the social enterprises themselves and also assess the impact of the social enterprises on the actual intended beneficiaries. For example, evaluations of programmes to provide
loan finance to social enterprises need to assess their impact on the growth of organisations receiving support, as well as the impact on those using the social enterprise’s services. There are further complications when attempting to put a monetary value on less tangible social impacts such as creating social capital and raising confidence or wellbeing. There is a risk that evaluations will only focus on what is measurable and quantifiable.

**Conclusion**

This chapter has set out to examine the support policies for social enterprises. In order to understand this, it is first necessary to understand what is meant by social enterprise, and the multiple rationales for support. The discourse around social enterprise is shown to be varied, with a lack of clarity over definitions in different countries resulting in a lack of clear objectives of policies and policies being interpreted in different ways. While many social enterprises themselves have little interest in debates over definitions, these issues are likely to become more of a concern where policies give social enterprises specific advantages in terms of contracts, taxation or access to finance. There is therefore a need for a degree of clarity in the development of support policies for social enterprises. The following recommendations can be drawn to inform future policy development.

Firstly, there is a need to distinguish between different types of social enterprises and to segment support accordingly. Some welcome the use of business models and the language of enterprise, while others find the labels of enterprise, business and entrepreneurship alien. Further distinctions can be made between those with democratic governance systems as found in the cooperative sector, and
those with a more traditional hierarchical system. Support needs to be sensitive to this and provide help in the form that is acceptable.

Secondly, there is a risk of taking the idea of ‘best practice’ to extremes and looking for a ‘one size fits all approach’. Local success is more likely to occur through adaptation with good practice lessons coming from understanding what is needed and developing suitable ways of meeting the need for that locality, while minimising confusion from a proliferation of approaches.

Thirdly, the public sector has considerable influence on social enterprise through its procurement policies or purchasing of public services. The roles of procurement officers or commissioners are central in encouraging social enterprises to deliver services and being invited to bid for contracts.

Finally, there is a lack of clear evidence concerning the impact of social enterprise support on beneficiaries, communities and the environment. The challenges go beyond those found in measuring the impact of SME support, with additional difficulties arising from the lack of a clear definition of social enterprise and complications in measuring social and environmental value. As it stands, current support for social enterprise can often be seen as policy based on an act of faith or expectation, rather than being based on solid evidence.
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