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BUSINESS SUPPORT FOR SOCIAL ENTERPRISES: FINDINGS FROM A LONGITUDINAL STUDY

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OCTOBER 2011

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Executive Summary

Social enterprises (SEs) have been growing in number and importance to the economy; their objectives and ways of operating offer a good fit with the ethos of the Big Society – providing they can survive and flourish. The current study was designed to provide a fuller understanding of the opportunities and challenges faced by SEs in the changing economic environment and the business support available to overcome those challenges. Findings are based on an extensive literature review, a telephone survey of 100 SEs, followed by intensive longitudinal research with 32 SEs over twelve months, exploring business experiences and support needs across that period.

- There is no single social enterprise operating model – SEs are highly differentiated; founding motivations, social missions and values are deeply embedded and highly important to the ways in which SEs operate. Though turnover is generally lower amongst SEs than SMEs, latest SBS data (2010) shows a higher proportion of SEs had increased their turnover in the previous year - 33 per cent versus 23 per cent for SMEs.

- In the study sample younger organisations explicitly formed as SEs, had business models with more clarity and greater medium term growth ambitions. No relationship could be established between actual growth across the study period and stated growth ambitions at the start. In some instances, the ethical dimension and sense of mission places limitations on the extent to which SEs can diversify or grow. Those SEs which grew were generally operating in less constrained markets, and with sufficient financial security to take risks associated with growth, while trading primarily with the public sector constrains the possibilities for many SEs and their ability to act quickly.

- The impacts of the recession and public sector funding cuts on SEs were uneven. Some had been affected very little, while others had made cost savings, redundancies or contingency plans, due to realised or anticipated drops in income. In most cases, growth plans were deferred or abandoned, with maintenance of the status quo and continuance of the service to beneficiaries taking precedence.

- SEs' business support needs are broadly similar to other SMEs. However, their social missions and consensual decision-making processes can lead to complications in applying mainstream support products, typically geared towards increasing the wealth of the owner and/or shareholders.

- The sense of 'not being understood' works against SEs in the targeting and uptake of business support. SEs believe the term 'social enterprise' is well-understood by funders, but not by the wider public. Identification with the term and enthusiasm for it varies considerably: some are wary of using the term, in case it is taken to imply lower levels of efficiency, detracting from their wish to be seen and to compete as 'proper businesses'.

- Broader understanding and a workable definition of the social enterprise 'brand' would be welcomed by most SEs but the term itself needs greater meaning. SEs reported that the Social Enterprise Mark was not widely used; they felt it was too easy to obtain and should be more thoroughly audited. Most did not seek any new or further concessions for SE status, and would rather trade under current legal provisions,

wanting to be recognised as 'doing enterprise well and differently'. Larger, more business-oriented SEs thought the SE mark would be unlikely to make any difference to them, but were happy to sign up to add weight and support others in the sector.

- Recognition in the procurement process of SEs' multiple objectives and contributions would certainly be valuable, but there was concern that some organisations would 'qualify' as SEs without a genuine claim. Yet establishing a genuine claim is dependent upon demonstrating social impacts, but this is patchy in the sector. There are some shining examples but many SEs see measurement of social impacts as desirable but expensive, and it often lacks quantification and analysis. For others it is fundamental, to evaluate and plan what they do and to influence those they deal with and 'spread the word'.

- Sales and marketing presented particular problems to some SEs. They were aware of this but did not regard it as a priority amongst their other concerns. Those organisations with strengths in marketing stood out, proficiency and success in this area reflected in other aspects of their business. Such SEs often took their CRM further - collecting and analysing their customer data thoroughly, through websites, booking sites, visitor data and/or specific customers surveys, using it to build their customer base, target marketing and modify activities - but this was relatively rare.

- Gaps in management experience were evident in many areas, mostly in finance (financial and cost management, raising external finance and investment readiness), but also in sales and marketing and operational and strategic planning. Managers tended to receive relatively little training once in post - although many were keen to do more if the resources were available. Recently appointed managers were usually 'outsiders', with experience gained externally,. Their skillsets tended to differ from those of staff and they were often brought in to manage growth transitions and bring about transformations. This often necessitated cultural adjustments on both sides.

- Board functions ranged from developing fundamental strategic plans and providing practical assistance, to some with little real power or oversight, some predominantly outward facing, offering contacts and advocacy on behalf of the SE, others more inward-looking, supporting and filling gaps. Achieving the 'right' combination of talents was important, especially where SE management skills would benefit from being supplemented by those of board members.

- Most SEs reported that they faced little difficulty in recruiting board members; however, recruiting a different type of board member could pose greater challenges, particularly in rural and deprived areas. Very occasionally board members had failed in their basic duty to provide financial oversight. Expert training delivered directly to board members had proved very useful to a small number of SEs and could have wider beneficial effects.

- Financial management skills are always crucial, but particularly in the past twelve months because of falling revenues, tighter credit terms and an increase in bad debt. Most SEs managed these aspects of their business well, but several of the larger organisations were carrying high levels of debt. While basic accounting functions might be sourced externally, transformative solutions in financial management tended

to arise within the business itself, through the recruitment of new staff, or a change in emphasis for existing management.

- Below management level, internal and external training of staff was common. However, with many smaller SEs training was ad hoc, whereas larger organisations had training needs analyses and plans. Training was very price sensitive, with managers sourcing as much as possible at low cost or for free, utilising funding schemes and subsidies wherever possible.

- Volunteers are used extensively by SEs, in proportions comparable to CSOs. Estimates from NSCSE 2010 suggest 95% of SEs and CSOs use volunteers. They are regarded as an asset, but not as one-for-one equivalents for paid staff. Many are less flexible and require management and supervision support, as well as induction, training and recruitment resources.

- Many SEs have responded positively to recent economic difficulties, reviewing business processes comprehensively and making changes and improvements across a range of areas. But some of these changes were overdue, suggesting a reactive approach to business amongst some SEs, rather than proactive, strategic planning. SE growth plans seem particularly vulnerable to exogenous influences, suggesting a need to reinforce the resilience of the sector and the accuracy of operational forecasts.

- SEs are not passive recipients of external support, many are support providers in terms of staff time, skills or mentoring to other SEs. There is a strong preference for face-to-face support, personal recommendations and those with sector-specific experience. Support takes place most frequently in peer-to-peer exchanges, between mature and less experienced SEs, and is also often business sector-specific. Some SEs even act as small-scale grant-making organisations in their own right, helping CSOs and other SEs financially, through the redistribution of surpluses.

- Many managers had or would use a mentor for support – as an effective way to improve their management style. Several had been mentors to other organisations, mainly informally, and had found it beneficial to both parties – evidence of the sector's ability to help itself and the benefits of a shared, common understanding of the purpose and ethos of SEs.

- Networking is popular and effective, supporting the informal exchange of information and helping to build relationships which expand the sector's capacity to bid for contracts. Questions remain about how to draw in SEs outside current networking arrangements, in order to extend benefits and to improve the sector's 'offer' to potential contractors, partners, beneficiaries and/or customers.

- There is substantial untapped goodwill in this area, as well as strong demand for support from people or organisations with SE knowledge and experience. BIS-supported Horse's Mouth or Mentorsme are strong possibilities for finding/becoming mentors, though these were little known among our sample.

- SEs are as likely or even more likely than SMEs to seek support, but only tend to look externally when substantive benefits are clearly apparent, in terms of direct and indirect costs. There were information failures where SE managers were ignorant of the possibilities of funded support, or how to access it. Relationships with their regular

sources of support, such as accountants and solicitors, were relatively straightforward, but uptake for one-off issues or tasks is lower.

- There is wariness about mainstream and generalist providers, caused by perceptions of the variability of services provided and poor understanding of SEs. Levels of engagement were highly dependent upon the skills of individual advisors. Yet recent users of Business Link amongst sample SEs reported satisfaction with the general service, finding business skills seminars relevant and of good quality. In general, the promotion, design and delivery of business support might be more effective if it took account of differences around emphasis and terminology in the SE sector and included awareness-raising for advisors.

- Interestingly across the study period five 'Partially self-sufficient' SEs in the sample reported the same levels of growth ambition (like the other SEs) but all contracted (unlike the others). This group also reported the least intensive use of external business support.

- The Big Society concept was not clearly understood by SEs in the study group, although they like the idea, believing it captures much of what they already do. Many would welcome more clarity and the development of practical ideas about how they can contribute. In order to be able to make their maximum contribution and to help realise the Big Society vision SEs stressed the importance of being treated as 'partners' rather than 'contractors' – i.e. being given as much information as early as possible, and having input into planning processes.

- SEs use different sources of external finance to SMEs. Bank finance is not widely used and grants (in particular) are used to a greater degree. Our sample, and particularly the smaller organisations, had low levels of debt, either through preference (e.g. to not risk the future of the organisation through building up debt), or prohibition through their constitution or legal form. Despite this, SEs are significantly more likely to seek finance for improving buildings, refinancing and marketing than their SME counterparts.

- SEs' awareness was limited mainly to mainstream finance products from the high street or specialist civil society lenders), as well as CSO equivalents (Charity bank etc.). Knowledge of more novel ways of raising finance (e.g. social investment bonds, community shares, crowdsourcing) was marginal, as well as how to assess the relative merits and subsequently access the products - suggesting a skills/capability issue amongst some SEs. Some awareness-raising is necessary to build knowledge and stimulate demand for these financial products, preferably via case studies to demonstrate the benefits and drawbacks of each.

- Most SEs agreed that in specific areas training or professional development would be useful if it was (a) free or low cost; (b) readily accessible; and (c) the benefits of increased capability outweighed the opportunity costs of lost management time. Taken together, this suggests online training, accompanied by mentoring support, would be most appropriate. Online toolkits, diagnostics and information packs would be a low-cost way to support social enterprises in a variety of areas (e.g. growth plans, dealing with regulations, contextual information about procurement for specific tenders and in general).

- A central website listing endorsed online grant-finding sites was considered a better solution than adding more complexity to an already crowded market (e.g. www.fundingcentralorg.uk). Online sources of consultants or mentors (e.g. www.setas.co.uk) met with some scepticism because of questions about quality assurance and a preference for personal recommendations. Online information sources have been used effectively by managers to cascade relevant information to boards, suggesting wider promotion would be beneficial.

1 Introduction

Social Enterprises (SEs) operate in almost every industry in the UK, from health and social care to renewable energy, from retail to recycling, from employment to sport, from housing to education. Amongst the most well known examples are Traidcraft, the Eden Project, Big Issue and Jamie Oliver's Fifteen restaurants, but these represent only a small fraction of the sector. As with all businesses, SEs compete to deliver goods and services but profits are reinvested for social or environmental purposes, in the business or in the community, rather than for the benefit of shareholders and owners. SE activity itself usually takes account of additional factors in the way business is done, with many pursuing gains on a double or triple bottom line, seeking and measuring social responsibility and environmental sustainability, as well as earnings.

1.1 Policy context

1.1.1 A developing theme

Like SMEs in general, SEs are capable of contributing to economic growth and job creation. However, SEs in particular provide a good fit with the government's aim of developing the 'Big Society', and could play a distinctive part in relation to deficit reduction. The government has repeatedly stressed the need to control public spending as well as to 'modernise public services'. Modernisation involves, crucially, a move away from the assumption that public services must necessarily be provided by public sector agencies. Both the private sector and civil society organisations are being encouraged to undertake the delivery of public services, as set out in the recent Open Public Services White Paper (2011). It is envisaged that this shift will provide substantial opportunities for SEs across a whole range of service delivery. Part of the rationale for the current study is to ensure that SEs are in the best position possible to respond to those opportunities.

During the past decade, there have been a number of initiatives to affect a step change in the role played by SEs in service delivery and in the economy more generally. In many ways it signifies a development or further iteration of the 'Third Way' policies of the 1997 Labour Government, which led to the formation of a Social Enterprise Unit in the DTI (Department of Trade & Industry), subsequently subsumed into the Office of the Third Sector in the Cabinet Office in 2006. Two key policy documents were forthcoming: Social Enterprise, a strategy for success (2002) and its successor, Social Enterprise Action Plan: Scaling new heights (2006). Both described similar visions of growth, in terms of the number of SEs and in the range and number of services they were capable of delivering. The former outlined an enabling role for government, with a number of aspects (i) creating the appropriate regulatory and legal environment; (ii) delivering support for business improvement and (iii) raising awareness and the visibility of the SE sector. The latter, the 2006 Action Plan moved the agenda on, defining a wider range of more specific actions, including: (i) the promotion of higher level training in the sector; (ii) specific funding to improve the provision of SE business support; (iii) an investment fund; (iv) training to promote improved access to finance generally, and (v) a cross-departmental Third Sector plan, to encourage closer working between government and Civil Society Organisations (CSOs).

1.1.2 Recent strategy

The Open Public Services Paper (2011) represents the next step, though expressed in somewhat different terms than those of the previous government, and in a very different economic context. The aspiration it describes is that SEs will bid to deliver public services and programmes previously run by central and local government. Public sector workers are to be encouraged to set up SEs or mutuals, bringing their previous experience and knowledge to bear in the expectation that, freed from government bureaucracy (local and central), they will be more efficient, customer-focused and innovative.

The overarching vision is of a 'Big Society', where decisions are taken locally, individuals take more responsibility and communities do more for themselves. Under proposals in the Localism Bill 2010-11, people will have new community rights to buy local assets – and run them as SEs for the benefit of the wider community. Councils are to be provided with new powers to help save local facilities and services threatened with closure, and voluntary and community groups will have the right to challenge local authorities over their services. As yet CSOs may not have the capacity or the confidence to rise to the challenge. The coalition however, has sent out strong signals that the era of big government is unsustainable. Policy has shifted from the state as the principal and often the only provider, towards a more open, mixed economy of provision.

Access to finance for SMEs in general is already a concern and has led to the implementation or continuation of a range of measures, such as the Enterprise Finance Guarantee (EFG) and the Project Merlin agreement with High Street banks. The intended increased role for SEs is to be facilitated, at least in part, by raising the levels of finance earmarked for CSOs, as announced in Growing the Social Investment Market: A vision and strategy (2011). This includes the new Big Society Capital, bringing together £400m from dormant accounts and £200m from Project Merlin banks, to make more investment capital – including leveraged private sector investment - available to the SE sector. Other provisions include greater use of charitable assets and endowments for investment purposes; a pilot social stock exchange; and the use of standardised methods to quantify the social value of investments. Financial advice and support will emphasise investment-readiness, in order to foster capacity and growth orientation in SEs.

The policy-making process focusing on civil society is taking place out alongside major changes in the business support environment. The government is undertaking a major programme to change the way that people running a business can access information, guidance and support. Over the current spending review period the government is:

a) Reforming the www.businesslink.gov.uk website to include both 'My New Business' a dedicated start-up service on the website, bringing into one place the available information for those thinking of starting or running a new business and a 'Growth and Improvement Service' that provides interactive and tailored tools and content that will help people who are looking to grow their business

b) Providing a new Business Link support helpline, to assist businesses who cannot find the information they need on the web or who are not connected to the internet

c) Working with the British Bankers' Association (BBA) and providers of mentoring to establish a single cohesive network of experienced business mentors offering practical advice to existing businesses and to people who want to start or grow a business

d) Establishing a new Business Coaching for Growth Programme to enable SMEs with high growth potential to realise their potential, to launch from January 2012.

e) Closing the Business Link regional advisory service in November 2011.

Other business support will be provided by private sector-led Local Enterprise Partnerships (LEPs), which bring together public and private stakeholders to understand local conditions for business development and provide appropriate advice, support initiatives and signposting, as required. This may include promoting a more entrepreneurial culture, both generally and specifically, in disadvantaged communities.

Face-to-face and more intensive publicly-funded support for business is restricted largely to (a) start-up support for the unemployed; (b) a streamlined set of Solutions for Business products (now reduced from 30 to 13), targeted at areas where there may be market failure and government intervention is seen as the most practical solution, including trade deals and new technology; and (c) support to businesses with high growth potential, delivering specialist support which brings together finance networks with professional and business services. This has been complemented from April 2011 by the Regional Growth Fund (RGF), worth £1.4bn over three years, to create sustainable jobs and businesses and to rebalance local areas away from over-reliance on the public sector, and the Business Growth Fund, a bank-financed equity fund worth £2.5bn for viable growth-oriented businesses.

1.2   Aims of project

Speaking in March 2011 and stressing the importance of social enterprise and government's ambitions for the sector Vince Cable, Secretary of State for Business Innovation and Skills, said

> It can be difficult for those of us who deal with policy to get our heads round it [the SE sector] because there are so many different organisational forms......with social enterprise we are dealing with a whole set of different institutional structure...what we have to do in Government is to understand them and see in what ways they can be reinforced by legislation and regulation.

The current research is a two part project: the first was a Social Enterprise Barometer published in April 2010, involving a quantitative survey of 500 SEs. This, the second part, has involved qualitative research over the course of a year, with a heterogeneous set of SEs covering the variety of size, growth rates, enterprise focus, mission goals and legal structures (including Community Interest Companies (CICs)). It was designed to provide a fuller understanding of the opportunities and challenges SEs face and to examine the availability and quality of business support to overcome those challenges. The report combines evidence from the Social Enterprise Barometer and the current qualitative study, and the comparison and contextualisation of findings with other information about business support for SEs. Data from the Social Enterprise Barometer survey is included, as is research examining support from Business Link and Solutions for Business and from a range of other organisations: Social Enterprise Coalition and Office for Civil Society.

Instead of adopting a supply-side focus – looking at the appropriateness and effectiveness of the business support already being delivered - the current study focused on evidence from

the demand side, looking at business support needs from the perspective of SEs. The work aims to inform evidence-based policy grounded in the actuality of SEs' experiences and needs. The study sought to identify gaps and instances of market failure in business support for SEs in a changing economic environment; how SEs have responded, where mainstream business support offerings struggle to meet the needs of the sector or to engage SEs in the first place, and whether mainstream services are appropriate or bespoke services are required for particular SEs.

To address the latter questions analysis has involved identifying the diverse needs of a highly heterogeneous sector and how or if support should be segmented to cater for these varying needs. This has included the consideration of potentially differentiating features, such as age, size, legal form, social purposes, sources of income etc. and how these relate to the support issues faced, and the sector's capacity to resolve emerging issues internally.

The study has also sought to identify specific difficulties relating to operational issues, trading and business development, and challenges arising from transactions with customers, other businesses and government. In order to assess the scope and need for the segmentation of business support for SEs. The research objectives have been refined to describe:

(i) How SEs understand the support environment and how they locate support for specific issues.

(ii) The internal capability and capacity of SEs to be self-supporting as a sector and their recourse to external support.

(iii) The mixture of different sources of external support, including government-sponsored support.

(iv) The business areas addressed by external support and the consequences of such intervention.

(v) The extent to which business support for SEs should be differentiated from support aimed at SMEs.

(vi) The extent to which support should be segmented across different types of SE.

1.3 Structure of the report

Section 2 contains the methodology used by this research project, and Section 3 reviews the literature which informed the research. Section 4 goes on to outline the characteristics of our sample SEs: operating models, values, and goals, and recent business performance. Section 5 examines their strategy and operations in more depth, identifying strengths and weaknesses. This leads to a discussion in Section 6 of the internal capacity demonstrated by the sample SEs to overcome barriers; where, how and why they source external solutions and business support; and potential areas where intervention may be necessary. This concludes by outlining possible solutions to issues raised in the previous section and tested with sample organisations.

2 Methodology

2.1 Background and derivation of the sample

The current research project builds on the Social Enterprise Business Barometer, a quantitative survey of 500 SEs. BIS's Business Barometer 2010 surveyed 500 SMEs across the UK, but the subsample of SEs contained within the Business Barometer is relatively small. The Social Enterprise Barometer provides a more robust evidence base for SEs. This consisted of a telephone survey of 500 SEs conducted by IFF Research in February 2010 (the report was published in April 2010[1]). Their sample was drawn from the earlier Annual Small Business Survey (now the Small Business Survey or SBS), and records obtained from Dun & Bradstreet and Guidestar. The 500 interviews included 27 enterprises with no employees, resulting in an effective sample size of 473 for the report.

To build on the results of the IFF survey, Durham University were commissioned to undertake an in-depth telephone survey of 100 SEs in June 2010. The sample was principally selected from respondents to the Social Enterprise Barometer Survey; non-English respondents were excluded thus reducing the usable sample from 473 to 343, of which 82 enterprises were interviewed by the Durham team. A further 20 enterprises were identified through the Social Enterprise Coalition and other umbrella organisations, leading to a total achieved sample of 102 responses.

While there are a number of different definitions of a 'social enterprise' (discussed more extensively in Section 3), the definition adopted by the survey (and by this report) requires an organisation to satisfy <u>all</u> of the following criteria:

(i)   generates more than 25 per cent of its income from trading goods and services (earned income)[2];

(ii)   derives less than 75 per cent of its turnover from grants or donations (unearned income)[3];

(iii)   has mainly social and environmental aims;

(iv)   does not pay more than 50 per cent of trading profits or surpluses to owners or shareholders;

(v)   principally reinvests its surpluses in the business or the community.

2.2 Telephone survey

The telephone survey served a dual purpose: (i) to capture a greater level of detail about the characteristics of SEs, their sources of income, barriers to progress and use of business support; and (ii) to generate a shortlist of candidates to participate in the second phase of the research: an intensive longitudinal qualitative study over the course of a year. The full survey is shown in Appendix 1.

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[1] www.bis.gov.uk/assets/biscore/enterprise/docs/s/10-1076-social-enterprise-barometer-feb-2010
[2] Earned income includes all transactions with businesses and consumers, as well as long-term contracts with public sector agencies. It will also include grants from funding bodies for the provision of specific services.
[3] Unearned income relates to unrestricted grants and charitable donations (fundraising, legacies etc.).

2.3   Longitudinal research

The second phase of the research aimed to involve a minimum of 25 SEs, with each to be visited five times across twelve months by a designated research team member (beginning June 2010). This sample was chosen to reflect a range of different types of SEs. The selection criteria aimed to facilitate segmentation of the sample and the identification of barriers and support needs by subgroups of SEs and included:

(i)   range of sizes of SEs (micro, small and medium)

(ii)   at least one enterprise from each English region

(iii)   a variety of sectors, including SEs with environmental aims

(iv)   at least three Community Interest Companies (CICs)

(v)   representation from Social Enterprise Coalition members

A total of 32 SEs consented to participating in the second phase of the research and five visits. This represented an oversampling of eight enterprises, as a precaution against the potential attrition of the sample across the year. A full (anonymised) list of participating organisations can be found in Appendix 2.

The use of a longitudinal study facilitated the development of a trust relationship with each enterprise, and the identification of development priorities, internal capacity and business support needs as they emerged during the course of normal operations (rather than relying on recall or speculation). This facilitated the attribution of outcomes and impacts to key influences on the SEs more precisely and to construct a more accurate narrative, related to processes underlying organisational change.

The first wave of interviews began in June 2010; subsequent visits took place at intervals of approximately two to three months. Visits provided an opportunity to build relationships with relevant personnel – usually a senior manager or Chief Executive. Subsequent interviews included other personnel as appropriate; in most cases one interview was conducted with a member of the SEs' board (usually the Chair). A substantial body of company literature (business plans and longer-term strategies, financial and social accounts, annual reports and publicity materials) was obtained from each enterprise to provide context and supplementary information.

Interviews were semi-structured, and covered:

(i)   The overall **objectives** of the business, as defined by interviewees, how targets were set and reviewed (including, for example, the use of KPIs and social accounts).

(ii)   **Strategic trading objectives**, covering future plans (e.g. employment growth, diversification into new markets) and social objectives, with respect to how they related to and interacted with trading activity.

(iii)   The **drivers of the business**. Questions explored the extent to which the organisation was proactive – i.e. led by a well-formulated business plan - or reactive – i.e. largely driven by responses to external forces, such as contracts ending.

(iv)   **Governance** and the interaction of the management team and the board (if relevant). This covered the recruitment and selection of board members/trustees, their roles and the emphasis of trustees' priorities in relation to business or social objectives.

(v)   **Operational issues** covering financial management; access to finance; fundraising; sustainability; human resources; use of volunteers; skills and training; ICT; marketing and communications; quality and contracting out.

(vi)   **Business support** and SE sector's internal capacity to overcome barriers. This covered the extent of recourse to external support, formal and informal; support agencies, experts such as accountants and solicitors; the use of peer support, and accessing the expertise on the board. Consideration included the self-awareness of the sampled SEs - if the organisations were capable of assessing the need for external support, along with other barriers, such as awareness of or how to access support.

(vii)   The **future** of the organisation, expressed in terms of continuity for the business or for the social and/or business activities it undertook. This covered plans for growth, possible mergers or divestment of activity, or diversification.

Subsequent sessions provided updates in the areas above and followed live issues emerging in earlier sessions and progress towards their resolution. New issues were also explored, allowing a 'diary' of events to be constructed, focusing on business issues arising across the study period, the deployment of internal or external solutions, and general reflections on the progress of enterprises.

Throughout the sessions, specific questions were also used in relation to:

(i)   the relevance of the term 'social enterprise' to interviewees and the desirability of accreditation and recognition of organisations as 'social enterprises' (e.g. through kitemarks)

(ii)   the direct and indirect effects of public sector reorganisation and budget cuts

(iii)   how the SEs have given support to other organisations themselves (e.g. as mentors)

(iv)   sample SEs participation in the 'Big Society' and what the term means to them

Interviews with board members provided a fuller perspective and were used to corroborate the views of management and test the extent to which vision and values were shared across organisations. These interviews also presented the opportunity for the adequacy of the governance function itself to be considered, including whether support specifically aimed at board members would be appropriate.

At the final visit events arising across the study period were reflected upon with the sample SEs, drawing together medium and longer term issues and assessing whether and how these had been resolved. This final interview was also used to test possible solutions and ideas emerging from the research, to gauge levels of interest amongst SEs and views on potential usefulness.

3 Literature Review: Social Enterprise, what defines the sector?

As stated in Section 1 the purpose of the current research is to provide a fuller understanding of the opportunities and challenges faced by SEs, and to examine the availability and quality of business support to help overcome those challenges. In order to achieve those objectives greater clarity is needed about what defines social enterprises and the sector as a whole. SEs are commonly regarded as different from both for-profit and not-for-profit organisations but more precise definitions are important for a number of reasons:

- to identify which enterprises are to be considered by the study and derive from those enterprises the pertinent issues to be considered;

- in order to ascertain the size of the sector and therefore the resource implications of support needs;

- significance to representative bodies in the sector, making clearer what it is they represent and as a result strengthening their authority to act as a voice; and

- qualifying (or disqualifying) individual organisations for access to support services, grant funding and loans.

3.1 Characteristics, conceptual models and size of the sector

While the precise wording of SE definitions adopted by academics and practitioners is not always in agreement, the following four characteristics, drawn from a study of SEs by Defourny (2004) across 15 EU countries occur most frequently:

(i) A high degree of autonomy

(ii) Activities include paid work – even a minimal amount

(iii) An explicit aim to benefit the community

(iv) Decision-making power not based on capital ownership

The following two characteristics, also proposed by Defourny, occur in several definitions but are actively contested by other studies:

(v) The level of economic risk SEs encounter – though this may also be common to many Civil Society Organisations (CSOs) facing uncertain levels of donations

(vi) Citizens are the engine for creating SEs, - thereby excluding transitions of former public or private sector organisations (including charities) into SEs.

3.1.1 Conceptual models

A number of conceptual models attempt to capture and locate SEs within a broad spectrum of organisations, from charities to private sector enterprises, helping to make clearer what SEs are not, as well as what they are. Philips (2006) argues that SEs occupy a distinctive place amongst the range of organisations and that they differ from (i) private enterprise in that their goal is not the maximisation of profit to benefit owners (although they develop market activities and generate profits), and (ii) from the public sector in their independence from the direct control of public authorities. This positioning is illustrated by Bolton et al (2007) in Figure 1.

Figure 1   A spectrum of organisational models
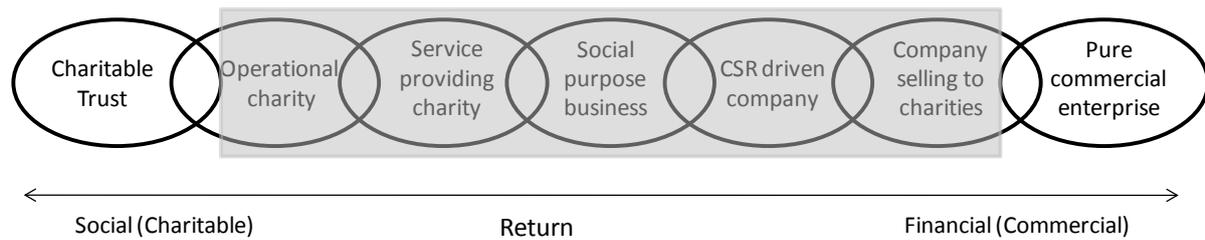
Source: Adapted from Bolton et al (2007)

Alter's (2007) conceptual model (Figure 2) is similar, but places more emphasis on the social rather than financial outcomes. This schema is somewhat clearer however, locating SEs as distinct from both nonprofits with income-generating activities and from 'socially responsible' businesses.

Figure 2   The hybrid spectrum between nonprofit and for-profit organisations
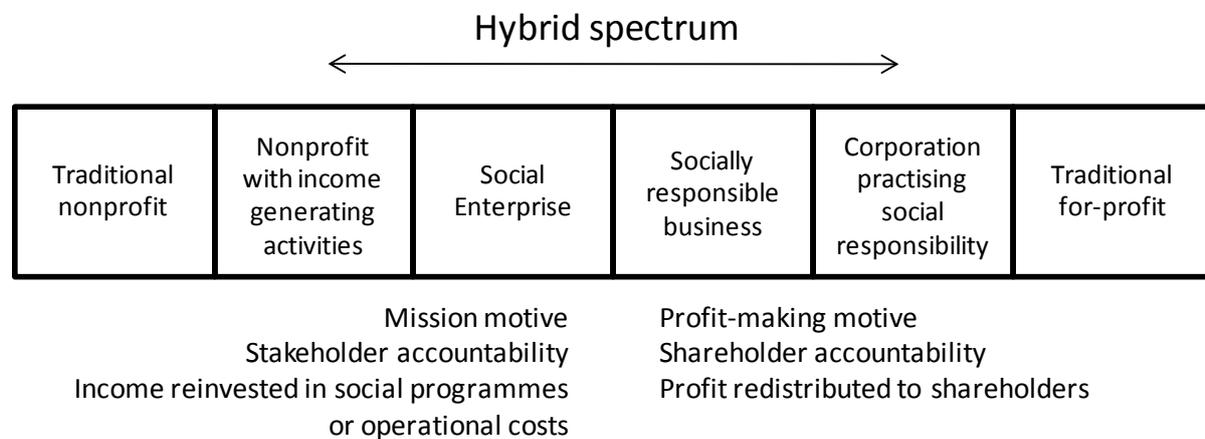
Source: Alter (2007)

3.1.2   Definition used by current study

The definition of a 'social enterprise' adopted by the current study is that adopted by the SBS and requires that all the following criteria be satisfied:

The business must

- generate more than 25 per cent of its income from trading goods and services (earned income);

- derive less than 75 per cent of its turnover from grants or donations;

- have mainly social and environmental aims;

- not pay above 50 per cent of trading profits or surpluses to owners or shareholders;

- principally reinvest its surpluses in the business or the community.

This BIS definition suffers from a relative weakness, in terms of distinguishing between those SEs which are growing and those which may be failing: the relatively low 25 per cent threshold permits those with increasing income to be included, while also capturing those with faltering levels of income.

3.1.3   Size of SE sector

Lyon et al (2010) report that major UK surveys use different methods and datasets to select their samples[4] but also observe that the most quoted figures derive from BIS's Small Business Survey. The 2010 survey suggests a SE population of 68,000 organisations with employees, although many of these may in fact be purely private sector organisations.

Almost half of CSOs (48 per cent) satisfy the less stringent BIS definition of SEs (25 per cent earned income). Using the narrower criteria (50 per cent of income earned through trading and 50 per cent of surplus used for social or environmental goals) just 8,500 of the CSO population can be described as SEs. Lyon et al (2010) suggest a methodological problem here in that the profit question discounts those organisations which only broke even or registered a loss. They suggest a truer figure for the number of CSOs which could be classified as SEs is probably closer to16,400.

There are some problems: the weakness of such surveys is that they are based on self-declarations of having social or environmental objectives and therefore open to considerable interpretation; debate about the validity of including SEs with sports or cultural purposes; how trading with the public sector is understood - some exclude this from their reporting of earned income.

3.2   Distinguishing SEs from SMEs and Other CSOs

This section explores further the characteristics of SEs, in order to better understand how SEs differ from SMEs and Other CSOs. This provides an indication of the areas where SEs may require differentiated support, due to the different contexts in which they operate and the various goals they are pursuing. Data has been taken from BIS's Business Barometer and Social Enterprise Barometer (both from February 2010) and the 2010 Small Business Survey (SBS), supplemented by the SEC's State of Social Enterprise 2009 (SOSE) and Fightback Britain (2011) and the National Survey of Charities and Social Enterprises (NSCSE) for 2008 and 2010. All figures relate to organisations with fewer than 250 employees.

3.2.1   Sectoral

SEs are more likely than SMES to be involved in community development or mutual aid, culture & leisure, economic well-being, accommodation and training activities, and the delivery of public services.

BIS data shows that SEs are represented across all the major business sectors, though their sectoral distribution differs from that of SMEs as a whole (Table 1). Large numbers of SEs are found within the primary industries (mainly agriculture), while there is a very low proportion in manufacturing.

The proportion in wholesale, retail, hotels & catering is very similar for SEs and SMEs (around 20 per cent) and there is generally high representation in 'people-orientated' businesses. This is particularly the case in health and social work, plus other community, social and personal activities; both of which have triple the representation of SMEs (17 per

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[4] The authors would like to repeat the assertion of Lyon et al (2010) that definitions are inherently political and the comments that follow are impartial critiques, rather than criticising or condoning any single method.

cent), and represent just over 40 per cent of all SEs. This pattern is broadly corroborated by NSCSE. The greatest differences are found in business services and other services. SEs are under-represented in the former (11 per cent or around 1 in 10, compared with 30 per cent or 1 in 3 SMEs).

Table 1   Comparison of standard industrial classifications

Standard Industrial Classification	SEs %	Other SMEs %
Primary	8.8%	5.1%
Production	1.4%	12.1%
Construction	8.3%	12.7%
Wholesale, retail, hotels & catering	20.5%	19.6%
Transport, storage and communication	8.1%	2.9%
Business services	10.8%	30.2%
Other services	42.1%	17.4%

Source: SBS 2010 (weighted)

Compared to Other CSOs, SEs are more likely to be involved in community development/mutual aid, culture/leisure, economic well-being, accommodation and training activities, and less likely to be involved in international development and faith-based activities. SEs are also substantially more likely to be involved in the delivery of public services (29 per cent, against 19 per cent of Other CSOs).

3.2.2   Origins

The origins of SEs – how they came to be formed, their background and its legacy, often influence how SEs operate today, as well as how and where they would seek or accept business support. The Social Enterprise Barometer looked at how SEs began (Table 2). Almost half reported that their organisations started as SEs. A further quarter began as profit-focused businesses and almost one in five as charities. Relatively few emerged from the public sector or from religious organisations, although some regard this as an inherent bias of SBS and other BIS surveys, which privilege 'businesses' over CSOs in their wider form(s).

Table 2   Form in which SE began

Always been a social enterprise	47%
Began as a profit-focused business and increased its social/environmental focus	23%
Charity	18%
Community Organisation	5%
Public Sector Organisation	1%
Religious Organisation	1%
Other	4%
Don't know	1%

Source: Social Enterprise Barometer (2010)

3.2.3 Sources of income

SEs are motivated by different concerns to SMEs (e.g. social and environmental goals) and operate different business models in order to address those goals. These, along with constraints derived from how and why they have been set up (and the wish to remain faithful to those original aims and objectives) mean that SEs are not always 'free' to take commercial decisions. This can impact upon how they do business and potential sources of business support: some are fundamentally constrained in their ability to reduce grant-dependency, whereas others adopt more market-orientated models from their inception.

Figure 3   Sources of income generation
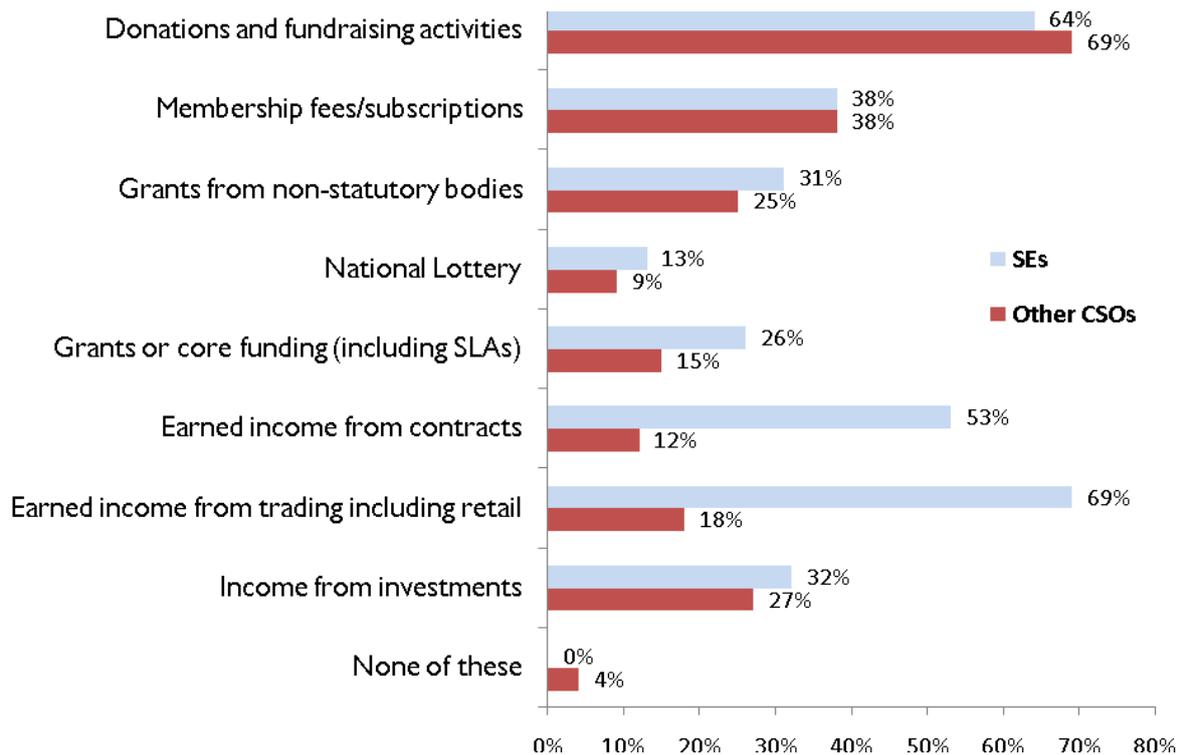
Source: NCSCE (2010) Multiple answers permitted.

As Figure 3 shows, SEs have broadly similar income profiles to Other CSOs. The critical areas of divergence are 'earned income from contracts' and 'earned income from trading': where a far greater proportion of SEs are active compared to Other CSOs (four times as frequently in both cases).

The increasing proportion of SEs reporting donations and fundraising as a source of income since 2008 is of note: while the percentage of Other CSOs reporting this remained the same (69 per cent). While other sources of income remained broadly the same, 64 per cent of SEs reported donations and fundraising as an income source in 2010 versus 57 per cent in 2008 – an increase of around 12%. The Social Enterprise Barometer records similar findings to NSCSE with regard to donations, with 46 per cent of organisations receiving private donations and 18 per cent from corporate sources. Membership fees and subscription income demonstrate a difference, recorded by only 3 per cent in the Barometer, suggesting that the Barometer's sampling frame may omit clubs and societies. The weakness of approaching income sources in this way is that this only indicates the incidence

among organisations of each particular form of income generation, not the amount derived which may well reveal a different picture.

3.2.4 Turnover

Though turnover amongst SEs is generally lower than that of SMEs, latest SBS data (2010) shows a higher proportion of SEs had increased turnover in the previous year - 33 per cent versus 23 per cent for SMEs.

According to the Social Enterprise Barometer (2010) the mean annual turnover of SEs was £471,000 - substantially lower and two-thirds of the average for SMEs (£719,000). Twice as large a proportion of SEs as SMEs earned less than £99,000 (30 per cent and 15 per cent respectively). This may be related to the business sectors in which SEs tend to operate i.e. those offering relatively low rates of income (e.g. social work) and SEs more frequent use of trading models producing lower turnover. At the other extreme the representation of SEs with an income over £1m was over half that of SMEs (11 per cent and 18 per cent respectively) (Table 3). Looking at civil society, NSCSE figures show that SEs have a higher turnover than Other CSOs (NSCSE 2009). While the median income for SEs is in the £100-250,000 bracket, for Other CSOs it is between £10,000 and £25,000.

Table 3   Sales turnover comparisons

	Social Enterprise Barometer %	Business Barometer %
Less than £67,000	17	9
£67,000-£99,000	13	6
£100,000-£249,000	23	20
£250,000-£500,000	18	20
£500,000-£999,999	11	18
£1m-£1.5m	5	6
£1.5m-£2.8m	3	7
More than £2.8m	3	5
Don't know/refused	7	9
Mean Average (£'000s)	471	719

Source: Social Enterprise Barometer (2010)

Taken together, figures for staffing and turnover imply that SEs are more labour intensive than SMEs, requiring higher average levels of employment for a lower average turnover. The pursuit by SEs of multiple goals or outcomes, rather than bottom line gains alone may be worth bearing in mind here, along with the earlier point, about the impact the use of volunteers can have on staff resources and thereby on productivity. However, not all SEs operate their enterprising activities in this way and the pattern may be changing.

Evidence from the Fightback Britain (2011) corroborates this, with even higher figures for the proportion of SEs reporting growth in turnover in the previous year. Median turnover for SEs in 2009 was reported to be £175,000, (State of Social Enterprise Survey), while in 2011 Fightback Britain reported a median of £240,000.

3.2.5 Employment

On average, SEs have higher employment levels than SMEs or CSOs[5]. The proportion of micro-businesses is significantly lower and the proportion of small businesses is significantly higher (Table 4).

Table 4   Employment comparisons with SMEs

	Social Enterprise Barometer	Business Barometer
Micro-businesses (1-9 employees)	**78**	84
Small businesses (10-49 employees)	**19**	14
Medium businesses (50-249 employees)	3	2

Source: Social Enterprise Barometer (2010)
Figs in bold statistically significant at 95% confidence level between the two surveys.

Not only are SEs likely to be larger in employment terms but there are indications of higher levels of growth in employment. A slightly higher proportion of SEs than SMEs reported increased employment in 2009-10 (Table 5), and fewer had contracted.

Table 5   Historic growth (12 months 2009-10): Proportions of growth in employment terms

	All	Micro	Small	Medium
Social Enterprise Barometer	18	**14**	**30**	**43**
Business Barometer	16	**15**	**24**	**34**

Source: Social Enterprise Barometer (2010)
Figs in bold statistically significant at 95% confidence level against overall survey findings

We should be careful about placing too much weight upon this comparison – it could be related to trends in the specific sectors where SEs operate more frequently, rather than differences between SEs and the general business population. Nevertheless, this trend of higher levels of reported employment growth was projected to continue into 2010-11 (Table 6) among micro SEs, though not small or medium-sized organisations.

Table 6   SEs forecasting higher employment over the next year (%)

	All	Micro	Small	Medium
Social Enterprise Barometer	24	23	28	26
Business Barometer	22	**20**	**33**	**38**

Source: Social Enterprise Barometer (2010)
Figs in bold statistically significant at 95% confidence level against overall survey findings

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[5] Employment and employees refers to paid employment, rather than voluntary workers. Where comparisons are made with SMEs only paid employees are being considered. There are instances where SEs and other organisations are paid to provide volunteering opportunities (usually to help people back into work). Where this is the case it is noted separately.

SEs are more likely to be an employer than Other CSOs (Table 7). Only 28 per cent of SEs had no employees, compared with 60 per cent of CSOs, and they are over-represented in each of the small, medium and large categories, compared to SMEs and CSOs.

Table 7   Employment comparisons of SEs with Other CSOs (Full-time equivalents) (%)

Number of employees	SEs (Narrow definition)	Other CSOs
No employees	28	60
One	11	8
Two	8	6
3-5	14	9
6-10	10	6
11-30	13	5
31-100	9	2
101 plus	6	2

Source: NSCSE (2008)

3.2.6   Volunteers

In making comparisons between SEs, Other CSOs and SMEs, volunteer numbers cannot be included wholesale in the headcount or to calculate productivity.

As might be expected, another point of difference between SEs and SMEs is the use of volunteers, with SEs employing a volunteer labour force comparable to Other CSOs and certainly no smaller. Some 8 per cent of SEs have no volunteers, while 66 per cent have 1-20, compared to 7 and 71 per cent respectively for Other CSOs (NSCSE 2010). This broadly suggests that SEs are likely to have similar issues and priorities surrounding the use of volunteers (recruitment, training, management etc) as other civil society organisations, although the precise details of how they deploy volunteers may differ. SOSE (2009) reported that 70 per cent of survey respondents used volunteers in their businesses. Some deploy volunteers as direct substitutes for paid labour to operate core services - potentially useful in financially constrained organisations. Others use volunteers more sparingly and sporadically, often in specific areas of the business or in roles that do not fully compensate for paid staff.

Some SEs provide volunteering opportunities to help people improve their employability, and the SEs are sometimes (but not always) paid for this by, for instance, JCP, DWP or a local authority. As different waves or cohorts move through organisations productivity can be affected until volunteers reach reasonable levels of proficiency – at which point they may well move on. Grossman and Furano (2002) identify three management inputs as crucial to the success of volunteering: screening potential volunteers to ensure appropriate entry and placement in the organisation; orientation and training to provide volunteers with the necessary skills and outlook; and management and ongoing support of volunteers by paid staff to ensure that volunteer time is not wasted. They conclude, "No matter how well intentioned volunteers are, unless there is an infrastructure in place to support and direct their efforts, they will remain ineffective at best or, worse, become disenchanted and

withdraw, potentially damaging recipients of services in the process."[6] Thus the needs of volunteers can mean that, rather than contributing to staff cover, they actually require significant inputs of staff time. Many SEs see this as part of their social role – to provide volunteering opportunities – even though at times it may detract from the resources they are able to devote to their core business.

3.3   The need for business support

In general terms, the market failures which affect the demand for and take up of business support by SMEs are well understood[7], the main ones being the result of information failure. Some SMEs do not recognise the value of externally provided advice and support. In some cases there appears to be a lack of self awareness in terms of recognising and identifying their own support needs. Some do not know how or where to access support. Others are unable or unwilling to pay for such support. All of these failures tend to be asymmetrical; that is they tend to be most prevalent and most important in smaller businesses with fewer resources and less ability to pay[8]. One of the key research questions is the extent to which SEs are the same as other SMEs in these respects and to identify any ways in which they differ.

In this section we look at evidence of business support use by SEs, contrasted with the usage patterns of SMEs – evidence based on what they actually do and, amongst other factors, shaped by the supply of business support – what's available to SEs. We then go on to look at evidence describing the business support needs of SEs as perceived by the supply side – the business support providers. Finally we consider how a demand-led approach might be adopted by support agencies.

3.3.1   SE use of business support
While they do not address issues relating to support requirements nor the extent of SEs internal capability and capacity for problem-solving and growth, several surveys provide indications of the extent of use of support by SEs compared with other SMEs. The Small Business Survey (2010)[9] indicates few significant differences between SEs and other SMEs in terms of their propensity to seek advice and support, the type of advice and support sought and source(s) used.

The Social Enterprise Barometer indicates that SEs across all sizebands are actually more likely to seek advice and information (of any kind) than SMEs (Table 8). Interestingly while they are less likely to be aware of Business Link Health Check, SEs are slightly more likely than SMEs to have made use of the initiative (Table 9). This is consistent with the findings of Nairne et al (2010b) in their study of the business support experiences of SEs: having actually accessed the service, approximately three-quarters of the SEs surveyed found the Business Link service was appropriate to their needs; dissatisfaction tended to centre around the service being too generic.

[6]   Grossman J and Furano K (2002) *Making the Most of Volunteers.* Public/Private Ventures. Available at http://www.ppv.org.

[7] See, for example, www.berr.gov.uk/files/file39768.pdf

[8] See, for example, http://www.bis.gov.uk/files/file48470.pdf

[9] Using the raw data, analysed by the research team. The restrictive definition of social enterprises is used, rather than self-definition, and responses have been weighted using the weighting variable. The analysis applies to employers only.

Table 8   Proportions seeking general advice and information in the last 12 months

	All	Micro	Small	Medium
SEs	45	**43**	**55**	**54**
SMEs	30	**28**	**37**	**41**

Source: Social Enterprise Barometer (2010)
Figs in bold statistically significant at 95% confidence level against overall survey findings

Table 9   Awareness and usage of Business Link Health Checks

	All	Micro	Small	Medium
SEs - aware of Health Check	58	**56**	**70**	52
SEs - used Health Check	17	16	**23**	**6**
SMEs - aware of Health Check	70	69	**78**	74
SMEs - used Health Check	13	12	**16**	18

Source: Social Enterprise Barometer (2010)
Figs in bold statistically significant at 95% confidence level against overall survey findings

3.4   Supply-side diagnosis of SE business support needs

3.4.1   Engagement and terminology

The 2010 OTS evaluation of the SE business support improvement programme is broken down into two reports, one looking at the supply-side (Nairne et al, 2010a), the other at demand (Nairne et al, 2010b). A third, final report has been published subsequently Business Support for Social Enterprises: National Evaluation (Nairne et al, 2011) drawing the evidence together and setting findings in the context of the coalition Government, elected in May 2010[10].

The supply-side survey of respondents from RDAs, Business Links and regional SE Networks (Nairne et al, 2010a) indicated a broad perception that, apart from a few specific areas, SE support needs were similar to those of other businesses, but that the engagement strategy and vocabulary (rather than content) need to be different. Figure 4 below lists the specific areas reported by Nairne et al (2010a) where supply-side stakeholders consider the support needs of SEs to be 'different' from other SMEs.

Figure 4   Differences in Business Support Needs for SEs

Legal and governance structures	Understanding the drivers of business formation
Linking social and commercial objectives	Management arrangements
Distributing surpluses	Presentation and vocabulary
Managing assets	Approaches to marketing
Managing volunteers	Involvement in diverse activities
Lack of commercial expertise	Close working relationships with advisers

Source: Nairne et al (2010a)

3.4.2   Emphasis on start-ups

An examination of supply and demand in the South West (Roger Tym & Partners, 2006) concluded that support for SEs tended to concentrate on start-up rather than the development of existing organisations, and that the capacity to understand and respond to

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[10] http://www.cabinetoffice.gov.uk/resource-library/business-support-social-enterprises

social enterprise needs varied substantially, indicating that enhanced CPD would be helpful (also recommended by Lyon et al, 2005 and Hynes, 2009). Stakeholders in general felt that SEs required more 'hand-holding', particularly in the start-up phase (Nairne et al, 2010a).

3.4.3 Ability to pay

Nairne et al (2010a) reported that SEs faced greater difficulties in (or were more reluctant about the prospect of) paying for support than other SMEs; again, this was most acute during start-up and early development. In some areas there have been attempts to address this through vouchers, but this has met with mixed success, with no clear conclusions on the correct value of vouchers or the proportion of costs payable by the client. Moving away from grant dependency was also regarded as important and SEs needed help to commercially exploit markets for products or services, as well as to undertake market research to facilitate the move (Hynes, 2009).

3.4.4 Appropriate models of support

Specialist SE support has evolved in a piecemeal, organic manner over the course of many years (GHK, 2005; Rocket Science UK, 2007; Taylor and Hämeenaho, 2005; Lyon et al, 2005) with organisations emerging as a result of particular funding streams or initiatives in an 'unjoined-up' manner. This led to variability in coverage, quality and links to other business support, resulting in a movement towards mainstreaming support through the Business Link IDB model, and launching more specific initiatives aimed at SEs (as laid out in the 2006 Social Enterprise Action Plan), with a recognition of the increasing importance of the sector in contributing towards key targets on social cohesion.

Amongst providers (along with SEs and their umbrella bodies) there is recognition that the IDB model of support is not readily applicable to SEs, given (a) the need for greater proactivity; (b) the complex support landscape; (c) the longer-term developmental support required by SEs emerging from small-scale community and voluntary programmes or regeneration initiatives; and (d) the larger number of stakeholders involved in start-up and development of a SE. On this point however, Guild

for SEEM (2005) notes that the IDB model is more applicable to mature trading SEs rather than those in the start-up or pre-start phases, suggesting that the journey to marketisation is the key phase when SEs need distinctive, intensive support. Once the appropriate trading model has been identified and operationalised, support needs are thought by suppliers to converge more towards those of other SMEs, though still remaining distinct in some ways.

3.5 Factors influencing demand

The literature generally approaches business support for SEs from the supply-side i.e. considering the effectiveness and appropriateness of support that is available or has been delivered (Hines, 2005), rather than looking at support needs from an organic, bottom-up demand perspective. In her study based on 30 organisations, Phillips (2006) examined the business support SEs require – from the demand side and as distinct from other types of organisation. Her study concentrated on growth and more 'business-focused' SEs. Even within such parameters, Philips found

> For the social entrepreneurs profitability was a secondary goal to their primary, social and/or environmental goals.

This leads Philips (2006) to conclude that any promotion of a growth strategy for SEs based on greater degree of marketisation 'would be resisted'. Philips suggests that, in part at least, this would derive from a sense of not being properly understood and of being different, but also that the standard means for achieving growth, such as aggressive marketing, increased efficiency, flexibility, cost-cutting and focusing on top revenue earning activities would compromise the qualities which SEs regard as distinguishing them from mainstream businesses. The result is that, unassisted, a social enterprise may well be inherently less able to diversify its products or enter new markets than an SME, due to the constraints of its social mission.

3.5.1 Lack of self awareness in the sector

The sector's own ability to recognise and diagnose its' own support needs is crucial if appropriate help is to be identified and supplied. Rocket Science UK (2006) reports a clear deficiency in marketing skills and capacity among their sample of Scottish SEs, particularly at a strategic level. Some of this is judged to be based on a lack of self awareness in the sector: Lyon et al (2005) found an unperceived gap for support in terms of the demonstration of social impact. This could be crucial in raising income, particularly winning public service delivery contracts and from new customers attracted by success stories.

Bull and Crompton (2006) note that SEs in their sample were slow to market the USP differentiating them from mainstream SMEs, namely their social benefits. In some ways there is reluctance, such as already raised by Philips (2006); marketing is often seen as counter-cultural and synonymous with promotion, thereby dispensing with its strategic value and the market positioning effective marketing could bring. It may be that individual SEs are not best placed to convey the totality of the message about the sector's distinctiveness in how and why they do business.

3.5.2 SE perceptions of business support

While the barriers to business growth faced by SEs are, broadly, very similar to those faced by SMEs, the commitment to a cause can exacerbate and/or raise those barriers. Phillips (2006) emphasises the social enterprise sense of difference and complexity, relative to mainstream business, and reviewing a number of sources, the

> widespread perception [amongst SEs] that the usual sources of business support, including Business Link, do not understand their needs because mainstream business is so out of line with the culture, vision and complexity of social enterprise.

SEs (and CSOs in general) are reportedly 'wary' of Business Link, to a greater degree than other SMEs, making engagement and delivery of support more difficult, and encouraging instead the use of pre-existing networks within the sector for such activity.

As already stated, the literature fairly consistently shows SEs believe that support organisations fail to demonstrate understanding of SEs and how they operate. This militates against the building of relationships based on trust and creating a good reputation with (potential) clients. Suppliers are often ignorant at a relatively basic, practical level – for instance of differences in the ways regulations operate in the SE context, including eligibility for tax relief etc. (FreshMinds, 2010).

In terms of available support, grant-finding services, online sources and networking opportunities were generally rated by SEs as meeting their needs, while legal support and mentoring were rated poorly (Nairne et al, 2010b). A 2006 study of 50 West Midlands-based SEs and trading voluntary and community organisations (i'SE, 2006) found a high level of grant-dependency, with organisations struggling to move towards a market-based model, while retaining true to their mission and continuing to generate sufficient income. Respondents to the survey characterised support received as generally 'passive or low-level', mostly comprising basic information about, for example, compliance with regulations. However, the report also judged the supply of support to be 'inflexible [and] programme-driven', and insufficiently contextualised to the support needs of SEs, which often seek support during periods of crisis.

The West Midlands sample indicated there was insufficient specialist support available in

(i) finance and HR (both often the source of crises)

(ii) marketing (including the creation of more widespread awareness of the SE sector's offer in general)

(iii) procurement (including strategic development of the wider marketplace for VCSE services)

(iv) leadership and management, and the reconciliation of business management with social aims

(v) legal structures and legal guidance associated with an increased level of trading

3.5.3   Finance-related issues

Finance issues recur as a major source of problems for SEs throughout the literature though delving more deeply reveals some inherent complexities within the sector, related to understanding and attitudes.   FreshMinds' (2010) survey indicates that support in this area is patchy: support for contracts/grants and public procurement was generally readily available, but support in other areas – notably loans, investments and asset management – are lacking. Issues are also reported around equity funding.

Despite this in November 2010, Triodos closed their Social Enterprise [equity investment] Fund – targeted at those SEs which were 'commercial in their approach' with the potential for a return. Triodos only made one investment from 500 enquiries over an 18-month period. FreshMinds' (2010) survey highlighted SE weaknesses in terms of taking a commercial approach to income generation i.e. how to marketise the organisation. Many enquiries to the SE Fund did not meet the fund's criteria; of those which did, reasons for not progressing included concerns about the business model or management capacity, and a reluctance on the part of managers to work with or relinquish part-ownership (despite this being clearly marketed as an equity fund).[11]

Hynes (2009) points out that (as in other areas) different concepts of 'return on investment' between finance providers and SEs, creating further barriers to raising finance. This in turn suggests consideration should be given to an appropriate form of flexible, sustainable growth capital for SEs, help in reconciling equity investments with social missions, and support for enterprises in order to achieve investment-readiness.

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[11] www.socialenterpriselive.com/section/comment/money/20100930/lessons-learned-the-triodos-social-enterprise-fund

3.5.4 Understanding how SEs operate: Governance and effective staff management

There are concerns amongst SEs about supply-side (support provider) ignorance and lack of awareness of SE governance structures and this may impede the impression of reliability conveyed to potential SE clients (FreshMinds, 2010). Mainstream support agencies may well have little awareness of such issues, yet the choice of legal and governance structures – and expert advice thereon – is crucial, both at start-up and to facilitate growth (Lyon et al, 2005). This is particularly the case where the founding entrepreneurs themselves are more interested in the social innovation dimension of the enterprise than governance of the business (Spear, Cornforth and Aiken, 2009).

The issue is often more complicated in SEs, as opposed to private sector or charitable organisations, by the need for multi-level governance (e.g. being both a limited company and a registered charity) and by the greater variety of available legal forms (e.g. CIC, IPS, limited by guarantee) (Spear, Cornforth and Aiken, 2009). Recruiting board members with appropriate skills and expertise is reported to be increasingly difficult, particularly those with entrepreneurial/business skills and for small enterprises and those in disadvantaged areas. This limits the board's ability to properly scrutinise management. Training for board members could provide a solution, but time and resources are often limited (Spear, Cornforth and Aiken, 2009).

3.6 Developing a demand-led, tailored approach

Despite cultural differences and lower levels of receptivity, as grant funding has declined there has been pressure on SEs to introduce improved operational and strategic practices in order to guarantee sustainability. However, Phillips (2006) argues that while SEs need support and must be entrepreneurial, business models assumed as 'givens' by mainstream support are not directly transferrable, particularly in the area of financial management (Anheier, 2000) and must be adapted to the unique needs of the sector (see also Chell et al, 2005). "Business models do not always "fit" with the social enterprise model' and SEs may have several 'bottom lines'" (Bull and Crompton, 2006, p45).

Multiple bottom lines require a diversity of management styles, as well as a holistic overview encompassing operational, strategic/developmental and normative aspects of the business (i.e. taking account of values) (Anheier, 2000). The precise combination of each of these elements is in turn highly specific to each enterprise. Traditional diagnostic tools may well be of limited relevance, as they rely on a limited range of indicators (Co-operatives UK and Partners, 2004). More specialised tools – e.g. the Development Trust Association's Healthcheck[12] could prove useful in such circumstances. Philips (2006) concludes that support initiatives should be generated by adopting a bottom-up approach i.e. asking the demand side - discussing the interaction between social mission and entrepreneurial activity, in order to determine the commonalities across SEs, in terms of both engagement and the content of delivery.

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[12] Available at
www.dta.org.uk/Resources/Development%20Trust%20Association/Documents/HealthCheck_A4%20version.pdf

3.6.1 Role models and networking

How support is delivered and by whom is pertinent to its success. In the demand-side study by Nairne et al (2010b) SEs called for greater use of networking, peer-to-peer learning and mentoring on an ongoing basis, drawing particularly on the experiences of other SEs. The State of Social Enterprise (2009) and Lyon et al (2005) echo this finding, reporting that SEs want peer-to-peer support and advice from those who have 'been there and done it'. Lyon et al note that their sample preferred this to mentoring, which required a greater investment of time.

Philips (2006) advocates research to identify role-model SEs which have achieved growth without compromising their ethos. Underpinning this is the importance not only of the message but of the messenger – to illustrate which SEs have managed growth issues successfully and, importantly that, originating within the sector, such an approach would be met with greater receptivity and perceived as credible by SEs themselves.

Rocket Science UK's (2008) review of SE networks reported findings based on the experiences of the West Midlands' Social Accounting Cluster (WMSAC). This found networking support from other SEs and provider organisations offered:

(i) increased opportunities to share knowledge, experience, good practice and encouragement, thereby also building confidence; and

(ii) increased opportunities for collaborative working, for example (a) submitting shared/consortium bids; (b) economies of scale in purchasing external support; (c) replacing external support with network-based training; and/or (d) sharing resources, facilitating reductions in costs.

For networking to be effective WMSAC found that roles, responsibilities and expectations had to be unambiguous and mutually agreed, with a clear lead agency, and allowing each organisation to proceed at their own pace.

3.6.2 Appropriate language and focus

SenScot and Communities Scotland (2006) also highlighted a lack of understanding and stressed 'an underlying need for cultural change, to improve statutory agency understanding and mutual understanding' in order that support is both designed and perceived to be appropriate to the needs of social enterprise. SEs in the Senscot study described a general lack of appreciation of the potential of social enterprise, for example not seeing it as a purely wealth-creating activity, but also capable of creating jobs and contributing to a range of agendas, e.g. via the employment of vulnerable excluded people. The report concludes that 'growth', measured in conventional terms such as increases in turnover, profits or employment, is not necessarily a good indication of the effectiveness of SEs, and may only come about as a result of compromising their mission. The implication is that, to improve uptake and appropriateness, support services should refocus both their vocabulary and activity on social impact, rather than business improvements and profits.

3.6.3 Understanding how SEs make their decisions

Choosing to pursue more orthodox business growth may necessitate the recruitment to SEs of management with a more business-oriented focus, creating tensions potentially within SEs and a risk of 'diluting' the original focus. The process by which decisions are made within the SE sector may also affect the uptake of business support. As mentioned previously, the culture of SEs tends, in common with many CSOs, to adopt a consensus-

forming approach; a desire to avoid hierarchical divisions between staff, and an unwillingness to adopt formal structures, communication mechanisms and procedures (Bull and Crompton, 2006 and Phillips, 2006). This may in turn restrict the desire and ability to grow, achieve efficiency savings or other business objectives. Indeed, the boards of SEs have been characterised – or criticised – (including by staff) as overly risk-averse in their commercial decisions (Spear, Cornforth and Aiken, 2009).

3.6.4 Guidance for business support advisors

In transforming the culture of the enterprise from a charity or grant-dependent outlook to a more commercial, contract-focused regime, building a relationship is key in order to understand and effectively manage the tension between commercial and social goals (Spear, Cornforth and Aiken, 2009). Co-operatives UK and Partners (2004) note that this progression needs to be backed up by generic management and business training, as well as sector-specific and SE-specific training. An advisor requires not only mainstream business support skills but also empathetic understanding of SEs, along with high level communication and facilitation skills to engage and support a wide range of stakeholders, many of whom may lack previous entrepreneurial experience and regard it with suspicion. This skillset may be relatively uncommon amongst advisors, inevitably limiting availability. While respondents to Nairne et al's survey of SEs (2010b) were generally 'highly satisfied' with training courses and events supplied by mainstream support agencies, concern was expressed about the variability of service for one-to-one advice or referrals. In particular, the perception of quality depended on individual advisors, with what was seen as great variability in knowledge, awareness and sensitivity towards the specific needs of SEs.

Expanding on the earlier point about stakeholders needing to understand SEs make decisions, Lyon et al (2005) noted two key areas of difference between SEs and other SMEs (a) lack of confidence and (b) more democratic and consequently often lengthier decision-making processes, requiring an advisor to both encourage strong leadership and facilitate consensus among stakeholders. Yet advisors may be unused to dealing with the wider range of stakeholders involved in a SE, compared with dealing with a single entrepreneur (Hanna and Severn, 2005, referenced in Rocket Science UK, 2007). This issue may be exacerbated for advisors by a trend towards multi-stakeholder models, where stakeholders themselves have multiple objectives, trying to act in the interests of both their particular group and the enterprise, and by the blurring of the boundaries between governance, management and operations common in small SEs (Spear, Cornforth and Aiken, 2009).

The findings of Co-operatives UK and Partners (2004) reinforce this, showing that long-term, developmental process support was crucial to the formation of growth strategies, and the fostering of a relationship between the SE and a support organisation – or, in many cases, a particular individual within the organisation.

The user perception study (Nairne et al, 2010b) suggests that the philosophy and mission underlying SEs means they could well make different decisions from a commercial SME in the same situation. Business advisors also need to be aware of this, taking account of social/environmental aims alongside 'traditional' goals such as turnover and profits, but this demands hard evidence on social returns which is in short supply (Roger Tym & Partners, 2006; Lyon et al, 2005; Hynes, 2009). The evaluation of social and/or environmental impacts and outcomes is often only carried out using short-term quantitative indicators, while the social and economic benefits from SE activity may take years to be realised. Such

information may be best expressed through a combination of quantitative and qualitative indicators (e.g. numbers of people helped into employment, coupled with case studies to demonstrate the role and function of the SE).

Specialised advice and support for SEs at a local level has been erratically funded to date, often with patchy geographical coverage, while mainstream support fails to take sufficient account of SE needs. Co-operatives UK and Partners (2004) note the common complaint that technical specialists (i.e. consultants from a variety of disciplines) also frequently fail to take account of the social mission of SEs in offering advice, treating them little differently from mainstream businesses. This implies a need to raise awareness of differences amongst professionals and that the appointment of technical advisors – from accountants and solicitors to more specialist advisors – should be approached carefully, potentially with signposting or brokerage from a SE specialist support body.

3.6.5   Delivering support more effectively

The West Midlands SE report (i'SE, 2006) recommends increasing levels of peer support from other successful SEs, backed up by training templates and other means of making peer learning more effective and less burdensome on individual SE managers. It also highlights issues with ability and/or the lack of willingness amongst SEs to pay for support.

Social Economy Scotland launched three pilots in 2005, aimed at SE start-up and development. The evaluation of these pilots (Social Economy Scotland, 2007) made three key recommendations for future SE support which have parallels to those already mentioned:

(i)   Accessibility, both physical and in terms of approach.

Clients welcomed the hands-on approach of the pilots and that at least some support was received on their own premises, noting this led to a stronger trust relationship.

(ii)   Flexibility, to adapt to the longer and more complex development cycle of social enterprises.

The use of peer support and/or agencies at arms' length from or not linked to mainstream providers strengthened the relationship. This suggests a brokerage model rather than delivering all support via in-house staff, concentration on strategic development rather than immediate operational support, and – potentially – the use of seed funding to facilitate and accelerate progress.

(iii)   Building on the sector's own expertise.

This could be accomplished through the use of a trusted intermediary organisation in which to base and/or to broker new support initiatives. Lyon et al (2005) also recommend the development of social enterprise expertise within sector-specific organisations, which for some SEs may be the first point of contact with the support system.

3.7   Key points

- Broadly, the business support needs of SEs are similar to other SMEs, in the general areas of support sought and generic support courses (e.g. basic book-keeping). However, they are distinguished by a commitment to a social mission and decision-

making processes and operational models which are non-mainstream, leading to complications in applying mainstream support products, mainly geared towards an ultimate end of increasing the income of the owner or business.

- The diversity of SEs – in terms of operating models, constraints and social/environmental missions – means that there can be no one-size-fits-all SE support model.

- There may be a lack of understanding of differences on the supply side and resistance on the demand side. Support needs to take account of differences in emphasis and terminology, recognising that standard metrics such as turnover or profitability should be complemented by harder to measure social impact outcomes.

- In some areas – finance, governance/legal structure and managing volunteers in particular – there are specific support needs which are distinct from those of other SMEs. SEs tend to take longer to develop and to reach a position of marketisation than private sector SMEs. In this early phase, they may require a greater degree of 'hand-holding'.

- While SEs are as likely or even more likely than SMEs to seek support, there is wariness about mainstream and generalist providers. This is driven in part by the variability in service provided, varying levels of the understanding of social objectives and can be dependent upon the individual advisor.

- There can be a lack of self awareness in the SE sector along with some general resistances to marketing and self promotion. When it comes to marketing the sector's USP – its social objectives and ways of operating – this may be better communicated via generalised promotional activity.

- Support delivered through specialist providers or peer learning methods, such as role models and networking and brokered specialised support through a trusted intermediary organisation, is more likely to be received positively. Opportunities for collaborative working are welcomed.

4 Social Enterprises in business

This section is about getting to know the social enterprises in our study sample better and the extent to which their experiences and perceptions of business support accord with those highlighted in the literature review. It explores how they regard themselves and the sector as a whole, their varying origins and motivations, their values and how they 'hold' them. Consideration is given to how they run their businesses, their business objectives, performance and social impacts.

4.1 What's in a name? Sector attitudes towards the 'social enterprise' classification

Business support explicitly aimed at SEs may not be perceived as relevant or appropriate by organisations. Varying degrees of identification and association with the term 'social enterprise' should inform the design and signposting of support.

Identification with the term 'social enterprise' is important for a number of reasons. Just as we spent time in Chapter 3 defining the SE sector, to be clear who we are talking about from an external perspective, so it is important to take account of how SEs define themselves. This allows us to explore the potential value of promoting the term more widely, in order to achieve a broader understanding with the public; whether the sector itself regards the classification as having value and whether they identify with the term sufficiently to recognise support and interventions for SEs as targeted at them.

There is a wide spectrum of views about the value and relevance of being classified as social enterprises – from those which define and set themselves up as SEs, through to those which have 'morphed' almost unintentionally into an SE, even some where the label seems to have been adopted almost cynically as the latest 'thing'.

> 'Some organisations that are social enterprises do not identify themselves as such... Some organisations that do not fit the government definition describe themselves as a "social enterprise' (IFF, 2005: 6).

The organisations in our study group had mixed opinions about their status and identity as SEs - the term's applicability to their enterprises and activities and how they wish to be perceived by others. For many the term 'social enterprise' is not the principal way they see themselves, often ranking behind business sector, social/environmental purpose(s), legal form or charitable status, so identification with the term can be quite weak. While some are comfortable with the classification, others see it as a definition imposed for external convenience and not something they would call themselves.

Some see a problem with how the outside world perceives the 'social enterprise' term, wishing it was better and more widely understood; some thought it makes them appear 'too enterprising, too commercial', others that it sounds as if they 'aren't business-like enough' - emphasising the desire to win business on their own merits, rather than because they are seen as a 'good cause'.

Understanding the reasons behind these varying responses to the SE classification could improve the targeting and design of information and support:

(i) Status as social enterprise or trading CSO (distinction made by Pearce, 2003). The BIS definition is sufficiently liberal to encompass the whole social economy, which means that some find themselves SEs 'by default'. In our study the organisations which can only be seen as SEs and with vested interests – such as CICs or social firms – were most comfortable with the term.

(ii) Date of establishment was often a factor. Amongst older organisations, some preferred more 'traditional' terminology (for example, 'charity'). Newer businesses, started when the term SE was commonly understood and used, were more likely to embrace it, often having set up as SEs in the first place.

(iii) Relevance to organisation's main purpose. Organisations with explicit social or environmental objectives as part of their main trading activities were more likely to embrace the term. For those organisations it provides coherence – the SE business form is consistent with both their aims and activities.

(iv) Negative & positive associations with charities & 'good causes'. Some of the recently formed SEs were keen to demonstrate that they are 'doing enterprise differently' and that their commercial activities can 'stand on their own two feet' and be viable. They want customers to choose them because they are the best at what they do, not because they are a good cause. This was a thought-through position, seen as the only way they can become truly self-sustaining and sustainable. Some are wary that promotion as an SE – for example for those employing disabled people - risks sentimentalising and pigeonholing the business and its workforce, thereby hampering its mission for the wider acceptance of disabled people as workers. At the opposite extreme, reaction to the SE label may depend upon how 'trading' itself is viewed; one organisation argued that operating a service contract for the public sector was not 'trading', preferring to see itself and be seen as a charity.

(v) Understanding of the SE label varies widely. Some of the study group were ignorant of qualifying criteria and therefore uncertain of their own status - and very wary of appearing to claim anything which may not be appropriate. Some assumed environmentally-focused organisations, for example, might not be included. Some avoid the term because they believe others do not understand it.

(vi) Usefulness of being classified as a 'social enterprise'. Charitable status comes with a range of possibilities and limitations which shape an organisation and how it can operate. Being defined as a SE does not automatically lead to any specific benefits; this is exacerbated by the loose way in which the term is applied and the range of diversity it attempts to capture. Some of the sample questioned this broad scope, arguing it is too broad to be of benefit.

There is a need to explain the term 'social enterprise' to the wider public in a positive way. More clarity would be welcomed by most SEs[13]. Consideration should be given to conferring more meaning to the classification in tangible ways – e.g. extending the benefits enjoyed by charities to certain SEs.

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[13] Lyon et al (2010) point out that affirmation of SE definitions is a political exercise, with interest groups attempting to influence discussions for their own benefit.

4.2 Quality and accreditations

The most common accreditations held by our sample were those related to their area of business (e.g. Fairtrade mark, Matrix, membership of sectoral bodies) and/or which they were required to obtain (e.g. care quality standards). Only four held the Social Enterprise Mark; in terms of other Civil Society-specific marks, one organisation had achieved PQASSO and one participated in the People Count Third Sector Human Resources Benchmarking list. The three furniture re-use organisations were members of the Furniture Re-use Network, which is sector-specific but only grants full membership to VCSEs. Four organisations had achieved or were working towards Investors in People, and a small number of organisations held other customer service-related standards.

4.2.1 Badging the sector- Value placed on SE mark

Generalised promotion of a social enterprise 'brand' could be constructive – the majority of the sample felt that the general public were largely unaware of what a SE was, and that using the term 'social enterprise' had little impact with the public or with funders.

In general, our sample regarded business sector-specific or generic quality standards as more useful than civil society ones – such standards communicated competence or excellence in their business to potential funders, helping them win contracts. The SE Mark, however, was not seen as being of benefit by the majority of organisations, as it did not lead to publicity or recognition among the public (given the lack of knowledge about the definition of social enterprise), nor was it required or requested as desirable by funders.

One organisation said that 'the Social Enterprise Mark would not impress anyone as it stands', another considered that simply being a registered charity was more helpful to winning business than any current kitemarks, while a third indicated that the SE mark had been of relatively little use in terms of winning business or publicity. The local newspaper did not run a story about this organisation obtaining the SE mark, even winning the 2006 Social Enterprise of the Year award led to only a small news item, after substantial effort on their part. One of the larger, more business-oriented organisations in the sample volunteered that, while the SE mark would be unlikely to make any difference to them, they would be happy to sign up in order to set an example and give weight to the term.

By contrast the Fairtrade Mark was seen by the Fairtrade organisation as being inextricably linked to the product being sold (rather than the organisation's legal format) and a brand with which consumers are already familiar. Not only does the Fairtrade Mark have greater public awareness but it has meaning in that it can confidently be assured against a strict set of standards, while the SE Mark could not be so reliably audited and assured.

It was argued that other VCSE awards would potentially align the organisation closer to the charitable or voluntary end of the social economy spectrum than they may desire – two of the sample reported that they had investigated PQASSO but turned it down for that reason. Another sample SE reported that they did not want to 'sentimentalise' the business by pushing the social aspects; they preferred to be seen – and present themselves – as a mainstream business which happens to employ disabled people. This attitude depended to a great extent on the operating model of the organisation; more 'business-focused' enterprises were much more likely to want to be seen as businesses rather charities.

None mentioned any difficulties with paying for awards or the effort required to obtain them as a barrier. Instead, there was simply little desire for further accreditation beyond their existing marks, or those which aid in winning future business.

4.3 The importance of how and why SEs get started

In the State of Social Enterprise survey (SEC, 2009) the majority of respondents indicated that their motivation for setting up or working in a SE was explicitly linked to social, community or environmental aims. One-fifth also articulated personal motivations; linked to wishing to feel positive about the work they do (Figure 5). The survey also found that the greatest difference in motivation between organisations' founders and those joining later was the incidence of the wish to 'give something back' - cited by 50 per cent of founders, but only 39 per cent of employees/volunteers (though it may still figure prominently in their decision to work in a SE).

The telephone survey provided more specific examples of founding motivations:

- to fill a perceived service gap, to preserve services at risk of closure, or to improve services;
- unplanned - where the social enterprise came into being almost as a by-product of other activity;
- an expression of the personal values, beliefs or interests of the founder.

Figure 5   Motivations for setting up or working in a SE

Motivation	Percentage
Putting back something into the community	45%
A better way to achieve social or environmental goals	24%
Making a lasting difference	20%
Feeling good about my work	19%
Economic/funding/legal/bureaucratic reasons	12%
Having a positive impact on the environment	10%
To have the freedom to try new ideas	8%
To improve on what was available	7%
Work in this industry e.g. Social care/arts	5%
Offered the job	4%
Always worked in the social enterprise sector	2%
Don't know	9%

Source: State of Social Enterprise (2009); multiple responses permitted

4.4   Values – their importance and influence

Many SEs in the study group were shaped by their values, strongly held and dating back to when they were first established. Some 14 organisations in the study group work for the good of specific groups, others' values were inspired by personal experience (of care services, for example). Some have been driven by a particular social or environmental cause. How explicitly these values are subsequently promoted or foregrounded varies, influenced by circumstances and the context or business sector in which organisations operate.

Religious motivations were relatively common amongst the sample; ten SEs aim to live out their faith-based values by serving their communities and/or the greater good. Yet in some cases, organisations downplay this aspect in their public-facing and contractual dealings, fearing it may discourage intended clients/beneficiaries.

Some SEs actively seek, as part of their mission, to demonstrate that you can 'do enterprise differently' – emphasising rather than minimising the commercial aspects and, in doing so, making the communication of that message part of their mission.

They do not view serving business and social mission principles as in conflict or mutually exclusive – quite the opposite - that if they fail to operate in a business-like and commercial fashion, their ability to serve clients and adhere to their mission would be impaired. Two particularly enterprising SEs use what they have learned as a training opportunity for SMEs - how operating differently can help fulfil CSR and conformity to the Green Agenda. These were recently-founded organisations and explicitly set-up as social enterprises.

In virtually every case, values are fundamental in determining how these organisations operate. From a business point of view, values are evident in how organisations approach strategy and operations and how they treat customers and staff.

4.5   Business models – combining mission and enterprise

In this section we look at how SEs in our sample combine social values and objectives with their commercial activities and how the solutions and ways of operating they have developed 'fit' within existing SE business models. The Four Lenses framework (Alter, 2007) explores how organisations combine their social values and goals with commercial business practices to devise ownership models, income and capitalisation strategies, and unique management and service systems to maximise social value. Mission orientation represents the relationship between enterprising activity and social mission across a spectrum from mission motives to profit motives (Figure 6).

- None of the sample SEs could be classified as engaging in enterprise activity totally unrelated to their mission.

- The majority (24) were 'mission-centric' in their enterprising activities, with business activities closely aligned with the individuals or interests they serve; examples include the Fairtrade organisation, the furniture stores and care services.

- The remaining eight were 'mission-related' i.e. activities contribute indirectly towards the SE's mission objectives; examples include the church running a nursery which, although complementary, does not fit with the essential mission.

Figure 6   Mission orientation

Mission Centric	Mission Related	Unrelated to Mission

⟵ Mission Motive   Profit Motive ⟶

Source: Four Lenses framework (Alter, 2007)

4.5.1   Degrees of financial independence

Figure 7 shows the criteria proposed by Alter to indicate the level of financial independence achieved by organisations; moving to the right indicates higher self-sustainability, and an increasing ability to charge full market rates.

- None of the sample SEs could be classed as 'traditional non-profits', and only five would be in the second group, 'partial self-sufficiency'. These made extensive use of volunteers and needed grants and donations to meet revenue deficits.

- The most common was 'cash-flow self-sufficient': more viable in the market, with less reliance on grant funding and no significant use of volunteers to address labour shortages.

- Eight were 'operationally self-sufficient': while fully covering operating expenses, requiring help to fund capital costs and deriving benefits from their charitable status. This group and the three which were 'fully self-sufficient' were more likely to assume additional activities beyond their core trading functions (e.g. policy and R&D work in the Fairtrade organisation).

- The three self-sufficient SEs operated in a similar way to 'mainstream' businesses, with revenues covering operating costs and no use of grants.

4.5.2 Dependency on fundraising – grants and donations

- SEs in the longitudinal study all earned at least 50 per cent of their income through trading, meeting the standard of the Social Enterprise Mark, more stringent than the BIS definition used by this report (minimum 25 per cent).

- On average the sample SEs earned approximately 90 per cent of their income.

- Thirteen of the study group had received funding from grants (making up an average of 15 per cent of this group's income) and

- Ten received donations (on average 13 per cent of their income).

The line between earned and unearned income can be somewhat blurred. For example, entrance fees for an attraction could (when converted into an annual membership) be classed as a donation attracting Gift Aid, while without Gift Aid it was recorded as earned income. More generally, Gift Aid could contribute a substantial amount of income to some organisations – as much as 13 per cent in one case and this was also one of the principal advantages of charitable status, in business terms. A number or organisations had been diligent in exploring and leveraging the opportunities to make use of Gift Aid.

Figure 7 Financial Spectrum of sample SEs

Aspect of Structure	Traditional Non-profit	Traditional Non-profit / Social Enterprise	Social Enterprise Type 1	Social Enterprise Type 2	Social Enterprise Type 3
Financial Spectrum	Full Philanthropic Support	Partial Self-Sufficiency	Cash Flow Self-Sufficiency	Operating Self-Sufficiency	Financial Self-Sufficiency
Level of income	No earned income. Relies on subsidies for financial support to sustain operations.	Earned income covers a portion of operating expenses or recovers some program costs.	Earned income covers operating expenses of enterprise at lower than market rates.	Earned income covers all operating expenses without full market-based costs (capital & investments).	Earned income covers all operating and investment expenses at market rate.
Subsidy	100% subsidy.	Enterprise and/or parent organization mostly subsidised.	Bridges deficit between earned income and expenses, capital investment and growth subsidy.	Cost of capital, partial subsidies for loans, and capital expenditures.	No subsidies.
Viability through earned income	Not viable Requires continued external financing (grants). Cost recovery often seen as side benefit not an expectation of the programme.	Not viable Organisation is dependent on grants and donations for survival; may self-fund isolated services or activities.	Approaching viability Covers direct costs; cost structure and growth subsidised; revenue covers daily operations until breakeven.	Viability expected Operational breakeven; no surplus revenue, subsidies diminish; revenues cover all operating costs.	Viable to profitable Revenues cover all operating/financial costs; retained earnings finance growth. Non-profit may change its legal status to that of a for-profit entity.
Type of subsidies	Philanthropic donations Grants In-kind support Volunteer labour	Philanthropic donations Grants In-kind support Volunteer labour Parent organisation support	Grants to fund deficit Discounts/tax advantages Volunteer or below market labour (interns) Below market interest rates Parent organisation support Preferential contracts	Discounts and tax advantages Below market interest rates Parent organization support Bridge/gap funds; grants for specific cost costs Preferential contracts	Tax benefits allowable by law if organisation maintains non-profit status Preferential contracts
Sample	0	5	16	8	3
Av. age (years)	-	18	36	26	58

4.5.3 Operating models

The many complex organisational arrangements in 'typical' social enterprises highlight the potential problems of designing appropriate support packages for the sector.

Alter (2007) refers to a number distinct operating types of (nine in original, reduced to seven here), expressed in terms of the extent of interaction between the social enterprise, their market and their target beneficiary population.

1. The entrepreneur support model represents infrastructure organisations providing business support and financial services to SEs. Four of our sample SEs followed such a model. It is the supported organisations which have the social objectives – they are not-for-profit, and working with or for the sector, rather than in the sector.

2. The market intermediary model – where the SE places itself as an intermediary between the beneficiary producer and the fully commercial market – followed by one organisation, the Fairtrade company. Such SEs typically undertake activities which add value to products; e.g. product development, production and marketing assistance, without a monopoly on purchasing products.

3. The employment model was used by seven organisations. This is a 'classic' social firm model: 'a market-led enterprise set up specifically to create good quality jobs for people disadvantaged in the labour market', according to Social Firms UK[14]. Social outcomes include the acquisition of skills, knowledge, work experience etc. Some of our SEs required grants to subsidise the extra needs and lower productivity of their workforce, in order not to compromise on quality and ensure their prices remained competitive.

4. The fee for service model was the most common and perhaps the easiest to understand. The SE sells services directly to the market, either exclusively to the target population or to a more general audience, including the target group. This applied to fourteen of our sample, including two visitor attractions, six personal services providers and six retail operations

5. The co-operative model provides direct benefits to a membership group which is also the target population. Two SEs had a close fit with this model. However, use of the term 'social enterprise' to membership organisations such as trade unions, clubs etc is contested.

6. In the service subsidisation model, the earning aspect of the business remains distinct from spending on social or environmental aims: income earned from the market is used to support separate activity with the target population. There were seven organisations which used this model to resource their social purpose.

7. The organisational support model, used by eight organisations, delivering a service through public sector funding. All organisations operating Service Level Agreements fell into this category. In many cases, the target population is also the market.

8. In addition there is considerable use of hybrid forms. One organisation in the sample is simultaneously using the co-operative, social firm and fee-for-service model.

In terms of improving levels of understanding of SEs and their operating models, we must exercise caution. The differing conceptual models imply discrete activities, but in practice there is widespread hybridisation as organisations work towards a natural model that works for them, their activities and their objectives and target communities, rather than an artificially imposed construct. This confirms issues raised by the literature review of the need to

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[14] Available at http://www.socialfirmsuk.co.uk/about-social-firms/what-social-firm

achieve deeper understanding of individual SEs in order to deliver effective business support that will be used, even if elements of that support are generic in nature.

4.6   Objectives and performance

The different organisational goals pursued by SEs in the telephone survey is shown below in Figure 8 and provides an initial indication of the sector's business priorities and where potential support could be focused.

- The most highly rated goal was 'improving sustainability'.

- The goals pursued by the greatest number of respondents were increases in sales, earned income and sustainability - each mentioned by around 90 per cent of respondents.

- The next highest priority was increasing the number of beneficiaries, followed by working more intensively with existing beneficiaries.

Figure 8   Organisational/business goals and ratings
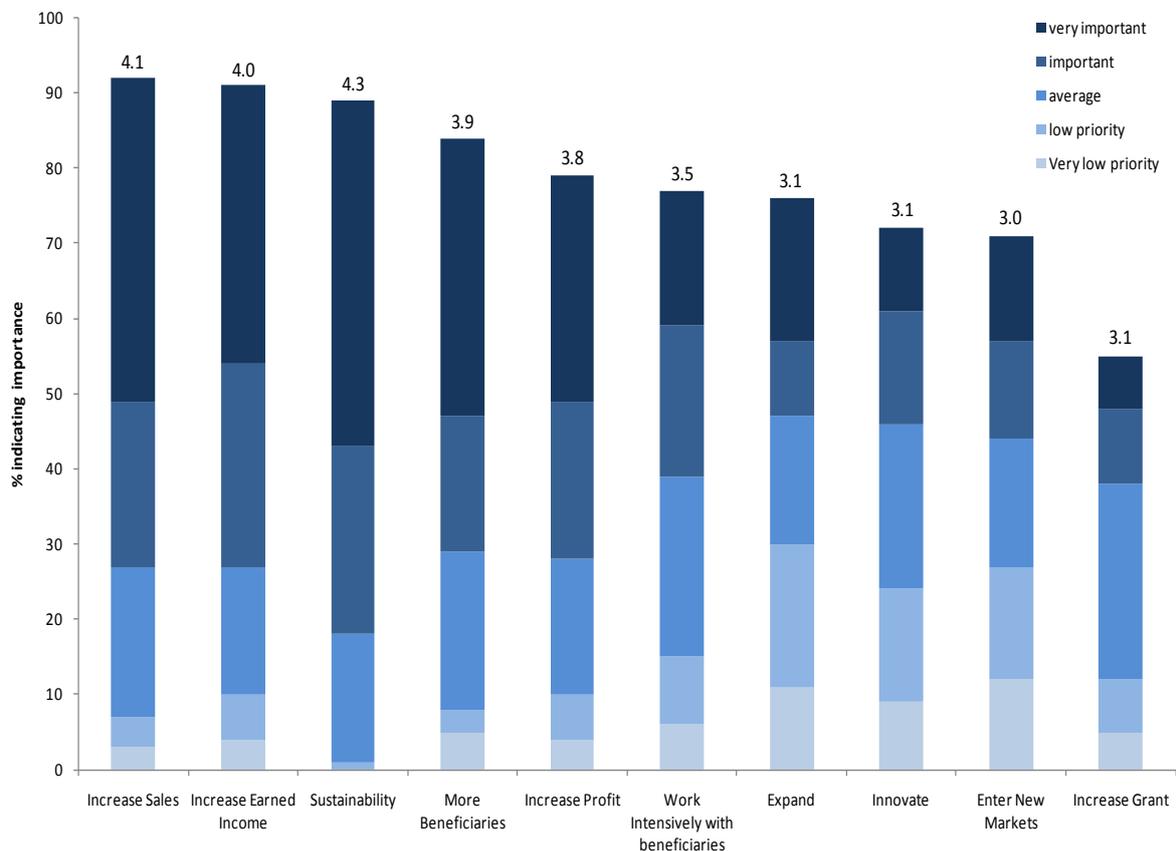
Note: the figure shown above the columns is the mean of the ratings

In the majority of cases business goals were accorded priority over social goals, in terms of prevalence and ratings, demonstrating pragmatism of many SEs: it is only by achieving their business goals that SEs will survive and thrive to continue to serve their social objectives.

4.7   Measuring social impacts

Measurement of social outcomes is patchy, often lacking quantification and analysis. Such assessments are seldom used strategically by smaller SEs to inform development, improve performance or to enhance the offer when bidding for work.

The measurement of social impacts varied considerably among the study group, in terms of extent and the methods adopted. Yet social returns do not necessarily increase in line with sales growth, and managers need to monitor both carefully as an organisation expands. It was more frequently a monitoring exercise or to report social achievements to stakeholders, rather than an integral part of a formative process of quality improvement.

Given social outcomes are such a fundamental part of the ethos and modus operandi of these organisations, this indicates a failure amongst some to capture data which could provide (i) valuable marketing information; (ii) evidence for funding applications or in bidding for contracts; (iii) a context for financial and commercial information; and (iv) improved understanding of their own business.

Only four SEs in our sample (one in eight) produced published social accounts, all medium to large organisations. They gathered quantitative and qualitative data related to different aspects of the organisations' work, including objective measures, such as the number of clients worked with and (non-monetary) benefits accruing to clients, plus more subjective measures, such as descriptions of outcomes for beneficiaries or staff survey results. The Fairtrade organisation supplemented these with their own research (through formal links with academia and a supported PhD) about the long-term benefits for their trading partners.

The varying levels of measurement of social impacts are another indicator of the range of views within the SE sector. Some see it as expensive and discretionary, a desirable extra unless required by funders; while for others the measurement of social outcomes is fundamental, to influence those they deal with and to 'spread the word' about how they do it amongst SEs and other businesses.

4.7.1   Measuring methods

Key Performance Indicators The majority measured social outcomes using, compiled on a regular basis (monthly, quarterly and/or annually) and particularly where funders required specific KPIs for evidentiary purposes. There tended to be a combination of indicators chosen by the SE itself, and those mandated by funders, often with some overlap. The number and the depth of measurement of outcomes varied considerably. The two basic measures of social benefit are (i) increasing quantity (e.g. number of beneficiaries supported); and (ii) increasing the quality of the service provided. For the most part, collecting data for funders was not onerous, especially if the funder provided a template and guidance for data collection. In some cases however (e.g. European funding), assembling the evidence required had proven burdensome and costly to collate.

Beyond this the information derived was principally used to communicate social outcomes and impacts to external groups (funders and other stakeholders), but only by the minority to the wider public through websites or annual reports.

Case studies There was widespread use of a case study methodology, to demonstrate impact to funders and the wider public. Several argued that this was more appropriate to

their way of working and desired outcomes than quantitative indicators. Others supplemented this approach with more quantitative methods of measuring progress towards 'soft outcomes' (e.g. RecoveryStar), which usually also serve as an engagement tool to enable beneficiaries to set their own goals, and reflect on their progress and life circumstances. Some also made the achievement of entry level qualifications a measure of progress, leading to a certificate in life skills or personal and social development.

Beneficiary surveys Several organisations surveyed beneficiaries after contact was finished (immediately after and/or some months later) to track outcomes and levels of satisfaction. The method varied – for example, one used an online survey tool, another mailed survey forms or arranged visits to (mostly elderly) ex-clients to obtain feedback, and a third followed up its highly mobile ex-beneficiaries by telephone.

A few SEs carried out surveys of their paying customer, face-to-face or via websites. These were repeated at regular, frequent intervals, to measure progress and inform planning and strategies. The findings were also made public to a wide audience via their published reports.

Case Study 1: Making yourself *too* different

One SE had developed their own version of a distance-travelled tool to use with clients to assess improvements in employability – clients' progress and the organisation's effectiveness. This was innovative and appropriate to the SE's way of working but, from a business perspective, the SE had failed to find out what was already being used in the area by other employment support organisations, including JCP and the local authorities. This placed the SE outside the network of provision, making them less easy to appoint for public contracts and hindering clients referrals between organisations – which would help to embed the organisation and contribute to its sustainability.

SROI Only one sample organisation has undertaken a full calculation of Social Return on Investment (SROI), which they repeat every other year. Several others have debated or investigated the introduction of SROI, but decided against it, primarily due to costs (especially in relation to the anticipated benefit), lack of relevance to the organisation and/or a belief that other methods of are more useful. There is resistance, often connected to a view that their work, and the impact SEs are able to have, are not best measured in monetary terms – 'you can't - you shouldn't - put a cash value on everything'.

4.7.2   Reporting outcomes and using data to drive performance

While information – and in some cases, substantial volumes of information – is collected by some SEs, there is a tendency not to use this information systematically to improve delivery. Even where social outcomes are tracked at the level of the individual client (often as a requirement of funding); they are not necessarily interpreted to determine if the quality of service provision is improving.

Sometimes this may be due to the perceived high costs of measurement and a failure to recognise potential benefits for the organisation, with the motivation principally driven by funders. One organisation, for example, was funded to produce a baseline report on their environmental friendliness, with recommendations for improvement. However, no follow-up assessment was conducted to see whether these had been put into practice and what the impacts were, as there was no funding available.

Several SEs made use of social accounting techniques. This involves (critically) reflecting on social outcomes achieved during the course of the year, summarising those achievements and making (limited) use of quantitative indicators, often backed up by case studies and recommendations for improvements. For full accountability, these accounts would be verified by an external auditor, although only one organisation undertook such auditing.

This level of reporting, however, was by no means universal within the sample. Although there were two or three notable exceptions of attractive, readable, and informative reports, many of the sample SEs, even when they collected relevant information and case studies, did not collate (or distribute) the data into a single report. Where a report was produced, it frequently only summarised usage, sometimes with (positive) quotes from users, with little analysis of outcomes or reference back to beneficiary targets.

The data was rarely used as management information, with only two or three notable exceptions using the data they already held systematically, to examine their organisations. They also collected a combination of data, interrogated and analysed it for a variety of purposes (including their own) and published reports targeted at a wider audience – i.e. paying customers (e.g. the restaurant and larger visitor attraction).

In terms of environmental impacts, the visitor attractions, the restaurant and the leisure facilities had all produced audits. These included the consumption of fuel, use of recycling and the carbon footprint of visitors and staff. The larger visitor attraction regarded this as part of its core ecological purpose, the restaurant as an example of CSR and good neighbourliness, the leisure facilities as socially responsible and maintaining a watchful eye on fuel costs and future reporting requirements, while the museum was lucky enough to have this activity paid for through external funding.

4.8 Governance and board roles

4.8.1 How SE boards are constituted

The overwhelming majority of our sample had a board of directors or trustees. Where either term could be used (some organisations, such as CICs, can only have directors, not trustees), the more business-focused organisations appeared to prefer the term 'directors', while those emphasising the charitable side preferred 'trustees'. In many cases, some or all members are aligned with the organisation's social purpose and/or values – e.g. shared faith, personal experience of disability. Some board members were targeted and recruited on the basis of the 'outward-facing' role they could play – their contacts and 'connectedness' as well as their expertise – and this tended to add capacity to the organisation's ability to advocate for its own cause with wider and more specific audiences, possibly specific audiences.

The four CICs all had only one non-executive director. It was clear from the interviews that they were there mainly to fulfil legal requirements, with limited input into the business. However, all four CICs were small; three had fewer than five full-time paid employees, as did the fourth if beneficiaries are excluded. For the most part, the manager or management team in these CICs set strategy in a fairly effective manner, and they are not included in the discussion below.

All of the co-operatives had a management committee rather than a board. In most cases, the committee was functionally equivalent to a board and included non-executives. All other organisations had several non-executive directors, with most having at least four or five. Boards comprised a variety of experts. Most had a solicitor and accountant, and some at least one expert in the organisation's field or where there are shared/mutual interests (e.g. a doctor in organisations dealing with disability, a builder in the home improvement agency, college principal in training/employment provider).

4.8.2 Recruitment to the board

Most managers indicated that they faced little difficulty in recruiting board members; however, recruiting a different type of board member can pose challenges.

In most cases, small SEs rely on local networks to recruit board members, which limits who they can reach. This is especially true in rural areas, where the number of suitable candidates may be small. Recruitment tends to be through networks and contacts of the existing board or manager(s), with explicit advertising and selection of candidates an exception. This is seen as saving time and money, and increases the likelihood of the new member fitting in with the team and the organisation's ethos – while also making it less likely they will challenge the status quo. One explanation offered is that suitable candidates are in short supply: it is assumed that the effort and cost of advertising would yield little benefit. However, this expedient practice potentially limits the diversity of candidates and the total range of skills and experiences available. New members were usually recruited on the retirement of existing members, and generally fit a similar skills profile (e.g. a solicitor would usually be replaced by another solicitor).

> **Case Study 3: You don't know what you don't know; the value of fresh, objective eyes**
>
> One co-operative's committee, had no non-executive members i.e. it is entirely constituted of senior managers, all of whom are co-op members. Some strategic advice was received from a 'sister' organisation (approximately 50 miles away), but not on a regular basis. They had discussed the recruitment of 'wise men' to act as an advisory committee, but no action had been taken. The organisation noticeably lacked a strategy and progress was hampered by internal disagreements and a lack of consensus around many aspects of operations. The situation rendered the SE vulnerable, with the development of the business incremental at best, and mostly reactive to circumstances.

Non-executive boards were generally composed of individuals with a variety of experience. Some had been managers in their own right, while some worked only as professional staff in another organisation, with no direct experience of leading an organisation. Most had not previously served on other boards and some managers preferred this to be the case, avoiding 'the usual suspects' or people 'doing it for CV points', in favour of people with a more direct connection, personal or professional commitment to the social mission. A small minority sat on a number of boards, with a small number of managers also acting as trustees of other organisations.

Skills needed by board members In three cases, the current board had been recruited in response to the failings of previous directors, which due to a lack of scrutiny resulted in financial losses in two organisations, and fraud and theft by governors in the third. However, while a crisis may precipitate enforced change for the better, it is clearly preferable to avoid the crisis in the first place. As such, the board requires strong leadership from a member with previous experience in senior management, chairing other boards and/or owning their own business, while also having the correct skillset to fill any gaps and a commitment to the organisation's ethos.

Only one smaller organisation undertook a formal skills audit of the board at regular intervals, and then sought out individuals to fill particular gaps. This was undertaken at a more informal level by more organisations – e.g. one manager recognised that they lacked marketing skills, so set out to recruit a board member with experience in marketing. There was also evidence of successful outcomes where recruits are drawn from a wider pool and some membership organisations will provide support in this area. For example, Arts & Business assisted one of the sample SEs in the recruitment of two new board members (who proved to be excellent recruits). This was the only example of support specifically targeted at recruiting and training board members among our sample, and was – as the name implies – sector-specific.

A minority of organisations had 'head-hunted' specific individuals for posts. This mainly applied when they desired a well-known figure as their chair, who could be an effective representative for the enterprise and possibly 'open doors' to new sources of funding and

raising the SE's profile among potential clients, although it could also apply to other positions.

Younger SEs tended to be more deliberate and purposeful in seeking out particular individuals, with specific talents, knowledge or contacts, that were 'additional' to the organisation and potentially offering greater rewards. Some younger organisations were led by founders or managers who retained contacts within the world of work, and who drew such contacts in, enriching the network and create a wider pool of candidates.

Risks of conservatism In most cases (but not all) the average age of board members tended to be high, with a number of managers indicating this led them to being 'old-fashioned', 'traditional' or 'with little interest in change' (as mentioned above). This is consistent with other research showing that boards in SEs are often reluctant to risk their social missions and pursue a risk-averse course. However, this was by no means universal; despite having board members of similar ages to the SEs above a greater number of the sample organisations reported having a strong, forward-looking board.

It may be more appropriate to link conservatism and any lack of dynamism to the formative process of the board and the orientation of the SE than age. In particular, some managers linked risk-aversion to the board retaining a 'charity mindset', in spite of a shift within the organisation towards a greater degree of commercial activity. Those organisations which did not emerge directly from charities or where there has been substantial 'new blood' in the board (e.g. regular turnover of members, or wholesale replacement) tended to have more proactive, strategically-oriented boards.

It would be useful for SEs to

> (a) broaden trustee recruitment to include more business-oriented members;

> (b) recruit experienced leaders; and/or

> (c) ensure a higher turnover of board members, perhaps introducing fixed term positions.

4.8.3 The contribution of boards

Different boards were 'populated' in different ways in order to fulfil certain functions and address specific gaps, sometimes quite purposefully.

- Some boards help support the SE in practical ways: because of their skills, contacts etc and therefore their abilities to supplement management capacity. Their assistance can be very 'hands-on' though often sporadic.

- In some cases board members were drawn from organisations with advance information about issues that might affect the SE – funding, legislative requirements, new initiatives etc.

- Others were recruited because of their position or status in the wider world and their ability to 'spread the word' and build support with a much wider audience – with the specific intention that they should leave the day-to-day running to the management (because they were too busy to do otherwise).

Although it was fairly common for board members to spend a day in the enterprise when they joined or on an irregular basis to better understand how the business operated, some non-executive board members volunteered in the enterprise on a more regular basis in a

minority of organisations. Indeed, a small number of board members had started their connection with the enterprise as volunteers, and were recruited to the board because of their particular skillset and their commitment to the enterprise's ethos. Board members contribute informal advice and support in their area of specialism and, for more substantial matters, would signpost the business to an appropriate intermediary or service provider. During the study board members or trustee were observed preparing business plans, recruiting staff and writing funding bids.

The board were sometimes supplemented by other individuals who provided niche expertise for specific purposes, but did not merit regular attendance or could not spare the time. These 'extended board' members were entirely unofficial, but rendered a useful service. Short term assistance of this nature allows interested parties to make a contribution without assuming the full burden of board membership.

In the majority of organisations, managers considered that they had strong and effective boards, providing leadership, support and direction without interfering in operational matters. In a minority of cases the board was regarded as a something of a hindrance, sometimes causing delays through slow decision-making and a failure to recognise business priorities.

The ability to call on relevant expertise – the 'right' person – was mentioned by many SEs and was a marker of the more successful, indicative of the networked and collaborative way in which many operate – preferring to rely upon relationships built on trust and known contacts, and those who genuinely understand the sector.

4.8.4 The role of the board

A board is not only a legal requirement, but an important part of the oversight process. As such, it should function as optimally as possible, taking into account the overall direction and strategy of a SE, rather than concentrating solely and simplistically on the social mission. It appeared – in a minority of cases – that there is a lack of business and entrepreneurial skills among SE board members. There were instances (including a longstanding charitable organisation) where boards appeared was to see their task as guardians of the SE's original mission – defending it against change and entrepreneurial ideas.

The opposite is also true, where more entrepreneurial board members are reined in by 'purists' or conservatives among the group, who regard the social mission as their primary focus, and business aspects less important. A third type of board influence is also possible: where a service manager may be competent in their area of specialism, but not especially entrepreneurial; a business-minded board may fill this gap. The dynamics between management and board are important, in terms of delivering social objectives, while remaining an effective and entrepreneurial business.

Figure 9   Board alignment and likely outcomes
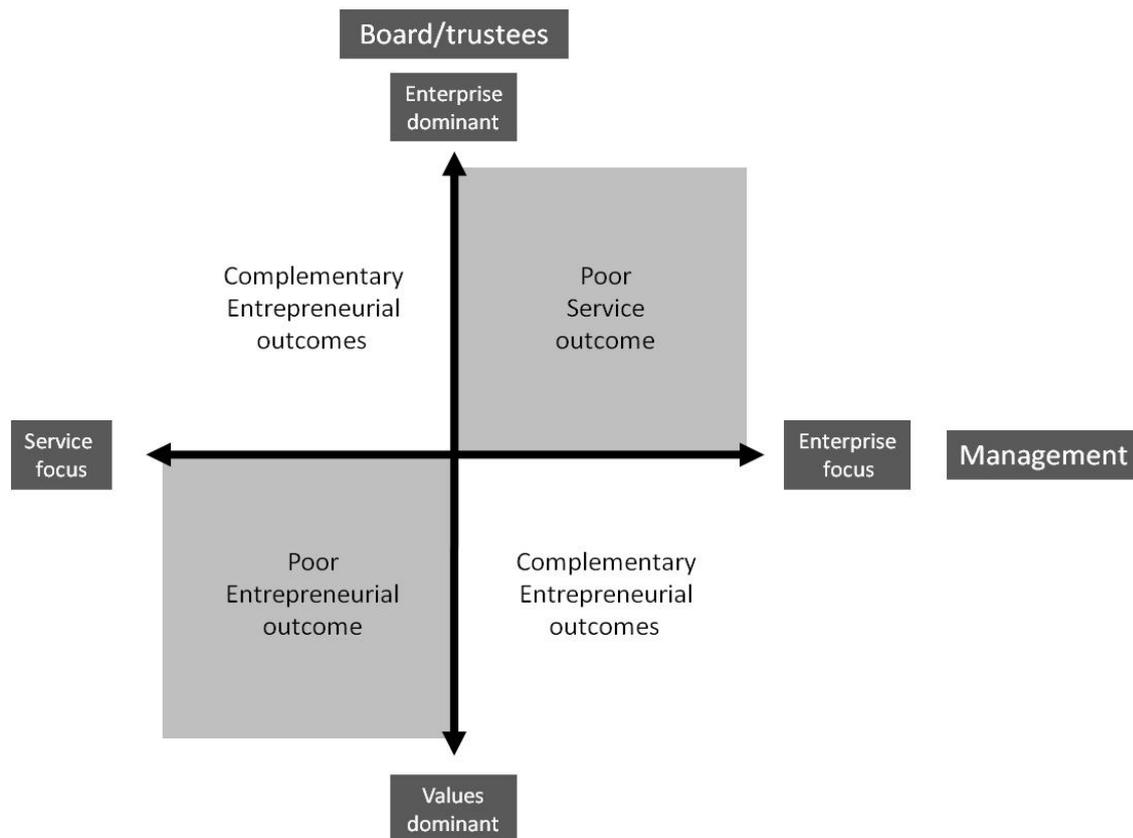
Figure 9 illustrates how differing combinations of management and board can produce different outcomes. The ideal situation might be seen as where entrepreneurial instincts in organisations are tempered by a commitment to service and founding values; in practice these are often embodied in the same person: 'we act as though we're a charity, but think like a business'.

4.8.5   Training board members
There was a variety of levels of training and support to prepare board members for their roles and provide them with ongoing developmental support. Few board members had attended external training courses, although the board members of some larger organisations had accessed training through the Institute of Directors (though not paid for by the SE, due to its high costs).

The general duties and responsibilities of trustees are clearly set out by a range of online sources (depending on the legal form of the enterprise), with the Charity Commission receiving particular praise for its guidance. In theory, the duty of assuring financial probity falls on everyone, although in practice the burden usually falls on those with a financial background (some recruited specifically for that purpose). Several board members thought that it should be a requirement for all trustees/directors to be financially literate.

'Internal' training – i.e. a manager or another board member cascading information gleaned from their own experience, training courses or online sources - was quite common, but there limits to the extent of information which can be conveyed this way. In some instances, external trainers were engaged on specialist topics or general governance issues, and this was regarded as useful but expensive. Training was usually carried out as a group, often as

part of board meetings, and typically uncertified. Peer support had also been used for training - one organisation formed a partnership with another local charity, and board members exchanged experiences.

Training for board members was popular – where it had taken place it was considered effective and board members said they would like more. Better trained board members would help to improve and guarantee levels of financial scrutiny.

4.9   Human Resources

This section considers all aspects of human resource management, labour relations and training for both employees and volunteers of organisations in the study group. The level of sophistication of human resource direction by management was highly dependent on size. There were dedicated HR managers in some of the larger enterprises, while the smaller organisations relied either on the senior manager overseeing all aspects of HR (which had led to some disorganisation) or contracting out HR responsibility.

4.9.1   Recruitment and retention of staff

The Social Enterprise Barometer recorded that recruitment of staff was no more difficult than for SMEs in general, but that SEs found retention significantly more problematic. In contrast, our telephone sample did not report staff retention to be as great a difficulty as the Barometer. The telephone survey also indicated that recruitment difficulties were concentrated in a relatively small proportion of organisations: only a quarter had vacant posts, with the number of vacancies equivalent to around 11 per cent of the total workforce in those organisations. Redundancies are avoided wherever possible, because of the commitment organisations tend to feel towards their staff.

Complex requirements Although most sample SEs anticipated filling vacancies in due course, difficulties could arise where small organisations sought multi-skilled workers to fit into a non-mainstream business model – for example, recruits with both the technical capabilities and teaching skills to train clients/beneficiaries, along with an appreciation of the organisation's social mission. These are quite specific requirements and represent a complex cocktail of attributes – though presumably a hierarchy needs to be established.

Low wage rates Other recruitment difficulties arise because of the typically low wage rates compared to similar posts in the private sector. While this has eased in some SEs during the recession (as recruits have been willing to settle for lower wages in order to get a job), it remains a major obstacle for one retailer. Their co-operative ethos means that all workers receive identical (low) wages, preventing them from attracting recruits - particularly to senior posts - of a sufficiently high calibre to drive the business forward.

Recruitment decisions In our sample recruitment decisions are usually handled in-house, by the senior management team alone or in conjunction with the board, with the exception of the most senior posts in the larger organisations involving external headhunting organisations. Human resource outsourcing was mainly used to deal with issues relating to redundancies and employment law (e.g. ensuring that the method used to let workers go was legal). The exception was when a particularly hard-to-fill vacancy existed – for example, one organisation had gone through multiple managers in a short period of time at their

trading arm, leading to a disorganised management situation and low staff morale. Advice and support from their HR outsourcer helped to remedy the situation.

4.9.2   Staff development and training

<u>Training plans</u> Just over half of the respondents to the telephone survey did not have a training plan, and there was a clear relationship between the size of the workforce and the incidence of such a plan (Table 10) - 1 in 3 micros, 1 in 2 small SEs and all medium to large organisations. Among our longitudinal sample, training needs tended to be identified by managers, sometimes in a fairly ad hoc fashion, recognising skill gaps as and when they occurred. This was especially the case among micro and small organisations i.e. training in such organisations is more likely to be reactive than part of a strategic plan. However, the absence of a plan did not lead to levels of training in the smaller SEs being lower – just over two-thirds of paid staff in micro and small organisations had received some training in the previous twelve months, only eight percentage points lower than in medium and large organisations.

<u>Incidence of training</u> The prevalence of training for volunteers was lower than for paid staff. We cannot comment on the intensity of this training among the telephone survey; the longitudinal sample indicated that a high proportion of volunteer training is geared towards lower level topics, notably induction and basic knowledge of the organisation. It was recognised by some that providing volunteering opportunities was part of the mission and particularly older people wanted to give their time and be involved but did not necessarily wish to undertake training (in ICT etc.). If obliged to do so they may be discouraged from volunteering.

Case Study 4: Comprehensive commitment to training

A management consultancy in the Midlands, a well-organised medium-sized social enterprise, with clear leadership from a dynamic chair was distinctive with its impressive approach to training: organised and inclusive and extending beyond immediate perfunctory skills needs. This SE is marked by good relationships within the organisation and with collaborators, and its committed approach to training embraces trustees as well as staff.

The organisation has a pro-active training policy for all staff, including project management training (delivered through a consultant and customised to the organisation's needs). The SE's good record on staff retention (linked to an internal recruitment system) encourages and rewards investment in training, giving rise to 'a well-skilled staff with no obvious skill gaps'. Trustees are also used to plug skills gaps. A recently identified skill shortage in fundraising is being addressed through the appointment of someone with the requisite skills as a trustee. Trustees in turn are often supported to attend conferences that will add to their skills and knowledge in area of particular interest to the SE.

An annual budget is set for training, and allocated in line with a system of personal development plans. All staff members receive training, 70 per cent is externally provided training, with 11 per cent leading to formal qualifications. Alongside systematic training activities linked to the SE's skills strategy, staff are also encouraged to train via a variety of means, including conferences, paid external courses and time allocations for studying at home. In training (and other) aspects of IiP, managers take the view that the consultant is '*not demanding enough for our standards*'!

In addition to skills training, systematic efforts are made to preserve and foster the spirit of the organisation; quarterly sessions are held for all staff, to reinforce and renew understanding of the spirit of the organisation and how it can be taken forward in future projects. This SE has also established its own networks for learning and knowledge exchange, e.g. the Policy Officers' Network (meetings/communications with managers in other organisations), and the recently-established Plunkett Advisory Group (a group of trustee-type people without the time to be full trustees, but serving as an advisory group).

Table 10   Paid staff engaged in training in the last 12 months

	% with training plan	% staff training	% training to recognised qualification	% staff external training	% staff internal training	% volunteers training
Micros (<10)	36.2	68.7	18.7	43.1	52.5	60.9
Small (10-49)	51.4	68.7	27.7	60.4	49.7	59.1
Medium/Large (50+)	100.0	76.9	23.6	41.1	72.7	54.3
All	47.5	70.1	23.2	49.7	54.5	59.2

- Just fewer than 25 per cent of paid staff in telephone survey SEs were working towards a recognised qualification, mainly NVQs in relevant vocational areas.

- Some staff in larger organisations were working towards professional qualifications, or receiving CPD to meet professional standards as appropriate. A certain proportion of staff in SEs providing social care had to be trained to meet licensing conditions, and kept up to date with health & safety and other regulations.

- A further 25 per cent of employees were undertaking external training that was not leading to a recognised qualification.

- Overall, approximately half of paid staff in the study had accessed some form of external training in the previous 12 months;

- External training was most prevalent in small enterprises (60 per cent of staff), with micro and medium/large organisations training just over 40 per cent of staff externally.

- Only 13 per cent of SEs had undertaken no external training in the previous 12 months.

- Internal training was slightly more prevalent than external, covering 55 per cent of staff, and more prevalent in medium/large organisations.

In four organisations rolling cohorts of trainees played a major role in the delivery of services, usually while following a structured programme of time-limited support and training themselves (e.g. completing an Apprenticeship-type course). However, this model has proved vulnerable to funding changes, leading to irregular and less structured recruitment more recently (although still with the provision of a training programme).

Commitment to training Despite the apparently high level of training, and while some SEs made significant sacrifices to ensure staff undertook professional training, it remains price sensitive. Most small organisations would be reluctant to pay a high cost for training or qualifications unless they considered the course essential or highly desirable. This is not unusual amongst SMEs in general of course, though it tends to limit organisations to only explore that which they already know, and many High Performance organisations work on the principle that almost any training undertaken by staff benefits the organisation, directly or indirectly[15].

Nevertheless, the ethos of many SEs includes, as a matter of course, treating their employees as well as possible, which includes support for personal and career development wherever possible. Thus, although budgets were tight, several indicated that they had funded their staff towards (mainly) Level 2 qualifications in areas such as customer service.

Case Study 5: Sacrifices paying off

One SE providing childcare on a commercial basis was strongly committed to training for its staff in order to raise standards and promote staff development, beyond minimum requirements. This *'caused strain but the investment in FE was worth it'* though obviously the direct costs and need to provide staff cover were issues for an organisation with very few reserves. It has proved very positive – raising staff's skill levels has been personally beneficial and good for morale, with some moving on to complete degree level studies in Childcare, though it has not always been straightforward with family and home issues intervening to slow progress. The organisation has benefited directly from its long term commitment to the members of staff; along with raising standards, staff qualification contributed to shifting its OFSTED rating from 'Satisfactory' to 'Good' with a discernible and direct impact on applications for places.

In most cases, the cost of the course and qualification had been subsidised or free through various (mostly public sector) initiatives. Such training was usually available locally (e.g. through a Further Education college), as was relatively cheap generic business training. However, more specialised and/or higher level training often involved travel and a consequent opportunity cost for management, which further increased their reluctance to pursue such courses. In addition, higher level training was less likely to be subsidised or free, further reducing willingness to participate.

Training provided in the sector, by the sector A number of the study group routinely provided training to their beneficiaries, and/or to other organisations or individual clients as part (or all) of their mission. Indeed, SEs are more involved in training than other CSOs.

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[15] Stone I, Braidford, P, Houston, M (2006)

Just under half of the sample provided some form of training, usually as an integral part of a social programme; in several cases, it was provided to private individuals, other SEs and CSOs or private-sector businesses on a fee for service basis. In two cases, the provision of training and consultancy to other SEs was the main business activity of the organisation.

Levels of training varied widely, from entry level qualifications (e.g. in social firms employing people with learning disabilities) to NVQs, and qualifications accredited by OCN and professional bodies up to FE and HE level. Occasionally, some training activity was regarded almost as a sideline of a senior manager, based on their previous experience and training, with fees used to subsidise their salary.

4.9.3 Contracting out

Where skills or capacity were an issue some organisations considered the possibility of outsourcing. Many small organisations contracted out payroll, which can be procured relatively cheaply, either as part of an accountant's standard package or from banks. The HR function was the other principal area of contracting out, in particular because of the high costs faced if employment law is breached (e.g. a tribunal because of a mishandled or contested dismissal). The monthly costs of this form of outsourcing was 'expensive, but worth it', on the rare occasions when they called on the services.

However, as with many types of support, care must be taken to select an outsourcer sympathetic to the needs of the organisation. The manager of a social firm commented that the sensitivities of their learning disabled clients had not been well handled by their HR agency during the course of a sacking procedure: 'they used a sledgehammer to crack a nut' by sending out a series of warning notices which scared the client.

Bids for contracts or grants were usually written in-house and seen as a key responsibility of the manager. Two organisations made use of professional bid-writers, although with relatively poor success rates, while another used a board member (a recently redundant CEO from a public sector organisation). The latter was highly skilled in bid writing, knew the requirements and understood and was in sympathy with the organisation's ethos and mission. In this case passing the task on was highly successful.

4.9.4 Volunteers

Several of our sample organisations – those using the partial self-sufficiency or cashflow self-sufficiency models - were dependent on volunteer labour, to avoid running into deficit. Organisations closer to being self-financing were more likely to regard the use of volunteers as exploitative ('unpaid work is against our ethos'). Nonetheless some still made use of volunteers, by using large numbers working part-time i.e. not unduly burdening any volunteers. With some SES, providing volunteering opportunities for vulnerable or isolated people was seen as part of their mission.

Many in the longitudinal sample stressed that volunteers should not be regarded as a perfect substitute for paid labour, and that making use of unpaid labour involves costs – principally the management time of recruitment, training and supervision. Furthermore, given that volunteers may have weak ties to the organisation and leave at short notice in favour of paid employment, they are often unsuitable for many senior posts or ones involving extensive training. The ethos of SEs towards their staff implies that it should not be a one-way transaction. In exchange for the organisation making use of their labour, the volunteer

should receive some benefit. In most cases, this would be work experience or – for those with disabilities, for example – increased levels of socialisation. In order to maximise the benefit to the volunteer, several organisations devoted management time to providing a more structured regime for their volunteers – e.g. assigning them specific tasks which they could 'own', or giving them some representation on the board. Some also focused on specifically taking volunteers who could gain substantially even if they required more resource input – for example, the long-term unemployed and others distant from the labour market.

Recruitment of volunteers was generally not regarded as a problem. Indeed, in many cases, and particularly since the onset of the recession, organisations in urban areas have had an increasingly ample supply of people wishing to volunteer, including undergraduates and unemployed recent graduates seeking work experience. This in itself required increased management time to sift applications, sometimes compounded by poor filtering of applications by intermediaries such as volunteer bureaux, putting forward them to the SE and again failing to take the appropriate time to understand the ethos of the organisation and what is needed.

Those in rural areas, by contrast, often faced greater obstacles in finding volunteers (though a larger enterprise seemed able to draw from a much wider area, based on its reputation and people's wish to be a part of it). Only one noted that a formerly plentiful supply 'has just dried up completely' in recent years, although it also remains more difficult harder to attract volunteers for less attractive back-office functions (e.g. warehousing)

4.9.5   Labour relations, employment law, contracts and terms and conditions
The SE ethos, as mentioned above and in the literature review, extends to encompass consensual staff buy-in. Several managers commented that their working environment has a 'family feel' and that a pleasant workplace went some way towards counteracting relatively low salaries.

In social firms, this protective ethos clearly goes even further, due to the vulnerable nature of the staff/beneficiaries – to the extent that some social firm managers objected to the term 'beneficiaries', preferring to refer to them in the same terms as 'mainstream' employees. Nonetheless, there are clear differences required in the approach to the two groups of employees; as one respondent said, 'our trainees have "parental deficit" and we need to take enormous care of them'. This necessitates the careful selection of staff in the first place, to ensure they appreciate the difficulties, and have the capacity to work with vulnerable groups, as well as the appropriate knowledge to deliver course content.

As a consequence of these workforce policies, staff morale in our sample was generally high. Three smaller organisations had only introduced employment contracts recently (requiring professional legal support), indicating some of the loose management style found among a minority of small SEs. Relations between staff and management were generally good, although a minority of organisations referred to past tribunals or difficult staff dismissals. Interviewees were all keen to avoid such events in the future, calling on ACAS for support when necessary.

Where the overall quality of management and leadership was deficient in an organisation, there was also evidence that staff morale was generally lower and labour relations more

difficult. One organisation openly admitted problems with morale, because of the poor working conditions (including cramped, basic, unattractive premises), low wages and lack of career progression. This was blamed on poor internal management and, in particular, a lack of consensus among senior managers on how to approach staff issues, leading at times to open disagreements amongst the management team and contradictory instructions. The provision of HR training may offer some solutions – perhaps delivered as group training for all managers, but the opportunity cost in a small organisation would be too high. Several of our sample recommended ACAS training as helpful to improve consensus-building and people management skills, with the advantage of being relatively cheap.

Formal practices such as staff meetings and staff fora tended to happen more in larger organisations, but also informally – and on a regular basis - in many organisations. Regular staff meetings, held at a scheduled time create the means for management to communicate with staff, thus ensuring that staff are given relevant and timely information about the business, while staff fora present a mechanism for staff to communicate their concerns formally to management.

5 Challenges and responses across the study period

Having looked at how our sample SEs function from a fairly 'static' perspective – the various ways in which they are set up to cope with challenges and change - we now go on to consider how they behaved 'in action' across the study period. During 2010-2011 the sample SEs faced a number of challenges, external and internal; this section looks at those challenges and how the SEs responded, including any recourse to external support. In particular we consider how prevailing economic conditions impacted on SEs' appetite and plans for growth.

Analysis is principally based on evidence from interviews during the longitudinal study, augmented by supplementary evidence (business plans, annual reports etc.) and secondary surveys of SEs and SMEs. Particular attention is paid to: (i) the capacity of SEs to foresee and diagnose their own support needs; (ii) the circumstances where internal sources of support were used, including the sector's capacity to help itself; (iii) issues of information flows and how and why organisations sourced particular support; (iv) SEs' ability to pay for support and (v) differences between SEs and other SMEs.

5.1 Big Society and the changing business environment

Principal among the changes during the study period were those in funding, which manifested in different ways in different organisations. Those SEs reliant on public funding, particularly via local authorities, went through a period of uncertainty while awaiting the outcome of the Comprehensive Spending Review and the spending cuts. There were also issues relating to attracting new business, governance, management succession, improving service design, issues of efficiency and professionalism and opportunities to expand and merge with other services. Nevertheless, those organisations with a robust trading arm and a very clear business model – such as the restaurant – found that business continued to thrive.

Many SEs said they were 'waiting to see how things went' in terms of the economic situation, the CSR and spending cuts, before making moves in any direction, making or developing any growth plans, scaling up or considering diversification, all were very much on hold. Many were affected by a range of seemingly extraneous issues, such as changes in homeless provision, public housing, benefits and the introduction of the Work Programme.

5.1.1 Big Society
SEs articulated a need for greater clarity about how the term Big Society can be turned into meaningful activity on the ground - and practical ideas of how they can best make their contribution.

Interviews allowed SEs in the study group to reflect on how current shifts in the policy environment are affecting them. Most considered that the manner in which the 'Big Society' might affect them was as yet unclear 'it can mean whatever you want it to'. Some attributed an underlying political motive to the initiative, with the lower labour costs and the greater commitment of CSOs meaning they are cheaper and less likely to withdraw the provision of services to needy beneficiaries than organisations in the private and public sector. Yet, despite this degree of scepticism about the Big Society's introduction there was widespread agreement with its broad paradigm. In many cases, organisations noted that their origins lay

in a group of motivated individuals responding to perceived but unmet needs; one said, 'We are Big Society now and when we started thirty years ago we were big society then'.

They were broadly in sympathy with the idea, as in keeping with their ethos and ways of working, but unclear about how to turn that good will into action. Some of the mature SEs had shifted from voluntary, amateur beginnings towards a professional, paid workforce with an increasingly businesslike approach, and could not see the fit with current initiatives. They reported that was mainly due to a lack of detailed information about how arrangements might work in practice. Nevertheless, most interviewees welcomed the possible emergence of new SEs - on the proviso that they had access to adequate resources.

Case Study 6: Response to Big Society

A support organisation's main business is research and the development of community infrastructure. It tries to contribute in a variety of other ways, including advising government on what is needed by way of data and supportive legislation (e.g. planning). This SE takes a wide-ranging and developmental view of the Big Society concept and what is needed for its achievement. It reported finding the government's approach more limited and somewhat unclear.

SEs anticipated problems with the envisioned increased supply of volunteers: "we are getting volunteers for the wrong reasons" and a poor fit between the volunteer and the organisation ultimately results in poor provision for clients and 'a headache' for the SE. There was also the resource and opportunity costs of recruiting unsuitable or unwilling individuals, in terms of wasted resources associated with recruitment and the on-costs involved (e.g. a CRB check) all of which have bottom line impacts and detract from the services provided to beneficiaries and/or the SEs' ability to act in a business-like and commercial manner.

When the final research visits of the study were undertaken, most samples SEs had only just received details of new funding plans and service contracts and had not yet had sufficient opportunity to map out the implications. In many cases, the announcement of the specifics of budgets had been delayed by local authorities etc until spring 2011, not allowing sufficient lead-times for organisations to plan and determine how service provision could continue. As a contingency, many had simply planned for the worst case scenario (and certainly not for business growth).

5.1.2   Financial impacts - trends and changes during 12 months
Across the 12 months to June 2011 there were substantial losses in income for the study group (Table 11).

- Aggregate turnover fell by £2.5m, from a baseline of nearly £61m at the start of the study, equivalent to a 4 per cent loss in sales.

- The net figure hides sales growth in some organisations, although this group were a slight minority and realised a gross increase of nearly £600,000.

- Organisations with falling sales generally had higher turnover, with a gross decrease of £3m.

- Trends in sales for organisations with substantial public sector contracts varied, although interviews suggested the full weight of cuts would only become apparent in 2011/12.

- Many noted lower levels of donations across the past year, attributing this to current economic conditions and high numbers of deserving causes competing for a shrinking pool of donations 'there've been a lot of disasters this year and that's always a disaster for **us** – we can't really argue with a tsunami or famine'.

- Another noted that when they appealed for help 'in extremis' - to defend the organisation in a tribunal case - donors were very generous, yet when approached for donations 'just to keep operations ticking over', few were forthcoming.

- Expenditure across the study period also fell (Table 11), as organisations deliberately made adjustments to accommodate likely income losses in the future, while in some cases variable costs fell in line with sales.

- Expenditure across the group fell by £2.25m, similar to the lower levels of income.

Table 11   Aggregate year-on-year changes in key indicators for the study group

	2010	2011	Change
Income **(£)**	60,954,000	58,487,000	-2,468,000
Expenditure	62,734,000	60,481,000	-2,253,000
Surplus	-1,780,000	-1,994,000	-214,000
Employment	1,056	1,048	-8

Expenditure fell among SEs experiencing a decrease in turnover, and rose among those experiencing an increase, roughly in proportion with the change in income (Table 12). Decreased expenditure involved changed operating practices (e.g. contracting out, sharing office space) and in some instances making overdue changes to inefficient practices.

Table 12   Aggregate year-on-year change by trajectory of growth or contraction (£)

	Change in Income	Change in Expenditure	Change in Surplus
Sales 'growers'	585,000	309,000	275,000
Sales 'contractions'	-3,052,000	-2,563,000	-489,000

5.1.3   External funding and relationships with public sector clients

One third of our sample faced issues related to funding. Several saw funding streams end or draw towards a conclusion (ranging from European funding to reductions in local authority budgets), and/or fundamental changes to the methods by which funding was delivered (e.g. personalisation, withdrawal of the Education Maintenance Allowance).

Some funded programmes were withdrawn or brought to a premature close at short notice, exacerbating the impacts of cuts among organisations which had devoted resources to deliver such programmes – thereby reducing the organisations' resilience. This was the case with a long term and large scale environmental awareness and employability programme (now seeking private sponsorship), as well as the withdrawal of support for free swimming for children and older people, subsidised by government and coherent with the organisation's long term health and wellbeing mission. The end of time-limited funding

inevitably leads to change and organisations need a continuation strategy for what happens to services and clients when funding ends. However, during the study period the alternative sources they explored in the past were becoming fewer, funding awards less generous and criteria more stringent.

Case Study 7: Withdrawal of funding

For a newly established, small scale manufacturing operation offering employability training, the withdrawal of programmes by intermediaries such as JCP and Connexions meant the need for a total rethink. They had already committed to the lease of premises and equipment, as well as employing staff, predicated on the continuing need for such provision. The organisation now had to re-invent itself, trying to develop a new mission and operating model, while also seeking new funding sources.

For some of the sample organisations, removal of project funding simply meant ending non-core projects and a return to mainstream business. In many cases, however, external funding is essential for their core business. In these cases, the response of management was to look for alternative sources of public, charitable or corporate support to continue the work, primarily because the business model was not fully viable in a commercial environment. This corresponds to the partial self-sufficiency model (traditional non-profit SE, of which there were five in the sample, as shown in Figure 7 in Chapter 4).

For several of those dependent on local authority funding, changes in income from Service Level Agreements were difficult to predict or plan for, with considerable uncertainty about the detailed areas in which local authorities and other bodies would choose to implement their budget cuts. In many cases, the announcement of the specifics of budgets was delayed until spring 2011, not allowing sufficient lead-times for organisations to plan and determine how service provision could continue.

Case Study 8: Impact of delays in decisions

The issue of delayed decision-making by local authorities impacted across more areas than direct funding alone. SEs mentioned it affecting decision-making in general, including payment terms etc. The care provider noted that the waiting time for residents ready to move on to independent living was lengthening – normally the local housing team would make an offer to the lone parents and their babies within 4 weeks but this had increased to 3 months and longer, and was affecting the organisation's capacity to provide care or make plans. Along with delays in the issuing of new contracts and reductions to the management fee, this meant that advanced plans for growing the business were postponed.

Some organisations reported that local authorities did not behave consistently towards them, especially when things became tough, information was not always forthcoming, decision-making was delayed and the commitment to partnership working appeared diminished: if I'm

a contractor I'll screw every penny out of the Council, if I'm a partner I'll try to save them money. As a contingency, some organisations simply planned for the worst case scenario, becoming more risk-averse.

Case Study 9: Reducing dependence on public sector contracts

Recent changes in the public sector have meant that some organisations, having resourced operations for the year ahead, found a programme was being withdrawn (free swimming for older people and children) or substantially scaled down, cut back or cut short (e.g. national employability initiative 'Green Talent') and the money clawed back. For both SEs these events represented a loss of anticipated income and involved additional costs as commitments had been made or economies of scale were lost. It has also prompted a re-think to look for new sources of income and funding, independent from the public sector and potentially self-sustaining. One of the sample organisations diversified into other service areas, while aiming at the same client group as their core mission, thereby increasing the number of potential funding streams – so the looming 'crisis' prompted creative thinking and the development of more sustainable practices.

Some were in a more precarious position, having been encouraged to devote resources to raise standards through staff training; improving or extending facilities, i.e. a sensible commercial move, but involving costs. They were midway through such changes but were now being offered considerably reduced management fees (e.g. the faith-based organisation providing childcare). On the positive side, funding regime changes also led to improvements in service delivery as funders made requests for service improvements, which prompted better training and more professional management.

5.1.4   Unexpected impacts of economic situation

For the most part, proactive or innovative new ventures were limited or put on hold during the study period; organisations in the sample generally underwent a process of retrenchment, consolidating core business and – if possible – diversifying but only into closely related areas. In general the effect of the uncertain business environment was to induce caution; only three sample SEs launched new money-earning ventures over the course of the year. At the start of the study period, several discussed the possibility of expanding, through diversification or territorial expansion. Three did carry out major capital projects during the year, but plans were already well-developed and funding in place at the start of the study period. In the third case, there was a risk about covering operating costs once the new venture was built, but the SE chose to take the risk and go ahead, since capital funding had already been secured.

Case Study 10: Public sector contracts: planning and procurement difficulties

A charitable trust, set up some years ago by the then district local authority to provide leisure services was asked by the (now unitary) County Council to carry out a budget reduction exercise, cutting their management fee by 30 per cent across four years. For the Trust, production of the required range of scenarios was labour intensive and came just as they were ramping up for a large development project. Consideration included the possibility of closures, and in conflict with their growth plans to grow for which the funding was already in place.

In light of the CSR the Council then put operation of the County's leisure facilities out to tender, (just fewer than 20) as part of a large procurement exercise. Already a registered charity – the Trust could offer significant advantages: substantial savings via exemptions from business rates and VAT, as well as close links and mutually understood ways of working and cooperation. It also provided an option to TUPE council staff across. The Trust was encouraged to bid for the contract, with localism an important factor in the PQQ scoring.

Despite specifically being invited to tender, the Trust initially failed the procurement exercise in a number of areas - issues which the Council should have been aware of and was even partly responsible for. Health and Safety, all H&S advice is provided directly by the Council (as part of the original contract) *'someone in procurement thought it would be good if all applicants had ISO accreditation, even though the Council [themselves] don't'*. On the finance criteria, the Trust's creditworthiness to upscale was questioned; it had been set up as a breakeven organisation, leading to inevitable difficulties in building up reserves. Nonetheless, the Trust has since been selected as the preferred operator and negotiations have been opened, following a ten month period of uncertainty - a prolonged period of insecurity.

For some, the economic context led to a reduction in capacity – some abandoned plans for growth while uncertainty about the volume of future business (e.g. because of personalisation) led others to assume and plan for forthcoming reductions in scale. However, some saw the transition as an opportunity:

- Some attempted to diversify into new business areas; for example, a care service considered offering fee-paying counselling to cross-subsidise the core business of childcare, another looked at marketing their in-house expertise to private sector clients, in addition to their core beneficiaries.

- Funding changes had not been universally negative. One SE recruited a personalisation officer to steer the organisation through the transition to personalised budgets for benefit recipients, which coincided with an entirely unexpected windfall payment of £50,000 from social services.

Case Study 11: Adapting to changes

A social care organisation had advanced plans to expand into the provision of holiday homes for people with physical disabilities, including a location for a home and detailed plans for conversion work. However, work has been put on hold, as they were unsure about the reliability of the revenue stream the property would generate, because of changes to benefits and the way local authorities pay for care (i.e. personalisation budgets). Now that the situation is clearer, the organisation is planning to move towards full operation.

Growth plans in other parts of the business – especially commercial skills training for disabled clients – have also been cut back, due to funding becoming more dependent on demonstrating results; in this case, obtaining qualifications, which their client group is unlikely to achieve. The uncertainty has pushed them to become more 'business-focused' than in the past. Previously, there had been fairly steady growth, which came about as a result of good performance in fulfilling public sector contracts. Now, in order to increase revenue and build up higher reserves (which has also limited the resources available to invest over the past year), they are seeking to diversify: examining the possibility of tendering for contracts, appealing more to younger disabled adults, and considering a loan – possibly from a funder rather than a (high street) bank.

Marketing has been stepped up to become more aggressive, and cross-subsidisation of services has increased. The organisation is growth-oriented, and has a solid expansion plan, but has had to temporarily divert resources away from the plan, and devise new operational strategies to cope with uncertainty and falling revenue in some areas of the business. However, making the business leaner, more efficient and more focused on business aspects – while not ignoring social outcomes – may create a more effective baseline for realising future growth, reducing the 'complacency' they felt they had fallen into in the recent past.

In a number of instances mergers were discussed (with the sample organisations usually as lead partners). This was typically because the other organisations lacked funding (or believed they would lose their funding) and were looking for ways to continue to offer their services if at all possible. Such approaches were viewed as last-ditch attempts at survival rather than part of a coherent succession plan. In addition, any mergers between SEs are sensitive. They have to take place between organisations with closely aligned social missions – for example, catering to the same client group and in a similar manner, and embracing compatible values. Several predicted that merger-seeking activity was likely to continue in the coming months.

5.2 Ambitions for growth

During the study period many SEs in the study group expressed no desire to grow their business, intending only to consolidate or preserve their current position (and service to

clients). This seemed to be most frequently to be the case when organisations considered they had reached a natural plateau where further organic growth was not possible or where circumstances were 'just too difficult' to contemplate expansion. Most SEs however, wished to grow their turnover. The ambition to grow appeared closely related to the age of the organisation; the youngest and those with incumbent founders in place were more likely to prioritise growth, while older organisations reported lower rates of growth ambition. Some had business ideas, others more developed plans – a couple with funding in place. Two had well developed construction plans, to increase capacity and offer new services, but were extremely wary of over extending themselves while it was unclear whether the services they were gearing up for would continue to be funded.

This was most obvious in those providing services to needy clients funded by local authorities. They were being encouraged by local authority departments to continue or grow provision – on the basis that it meets local needs - but at the same time no undertakings could be made and at least two SEs had been told to cut management fees by 20 per cent. Another, a successful restaurant offering intensive employment training to those most distant from the labour market, was interested in rolling out the business model to other vocational areas. Although this SE did not have the same degree of dependency on local authority contracts as others it was still felt that economic uncertainty made it unwise to extend into new areas.

In terms of current growth ambitions and recently realised growth, the study organisations may be broadly grouped into four main categories:

1) **Low or no growth ambitions.** Growth indicators are stagnant or even exhibit contraction and sometimes other institutional setbacks.

2) **Ambitions to expand turnover, employment and/or social outcomes**. Plans may not be well developed and currently on hiatus or scaled down, due to challenging or uncertain conditions; though still wishing to realise growth in the future. Present circumstances may involve some contraction.

3) **Ambitions to expand turnover, employment and/or social outcomes realised** or partly realised during the year.

4) **Organisations which seized opportunistic or unexpected growth opportunities** which were not in their business plan during the year, either realised or will be realised shortly.

5.2.1 Internal factors affecting growth

SEs are more likely to grow than SMEs, although the trend is far from universal: there are types of SEs with characteristics more predisposed towards growth. Fightback Britain (2011) offers evidence of the heterogeneity of organisations with regard to business optimism and likely performance. SEs are segmented into categories according to where they earn their income and reported business confidence. Fightback Britain found that SEs trading directly with other businesses and consumers had the greatest levels of confidence, while those principally interacting with funders or the public sector were least confident (Figure 10). The type of business, and associated client groups, represent inherent limitations or opportunities on the ability to earn profits and grow their business.

There were differences between growers and contractors in various categories in the study group, based on detailed interviews, and scored by the research team (Table 13). As would

be expected, higher scores for financial security and growth possibilities were awarded to growers, consistent with their performance during the year, and with the expectation that this trajectory would be continued in the coming year (if funding permitted). Growth aspirations reflected expectations recorded in business plans, or other corporate documents, rather than the actual likelihood of realising growth. Growers and contractors averaged the same score (in terms of growth aspirations), possibly reflecting the uncertainty of many of the sample SEs during the study but therefore likely to be similar to the SME population in general across the same period.

Figure 10 Net Business confidence of social enterprises[16] (by source of income) (%)
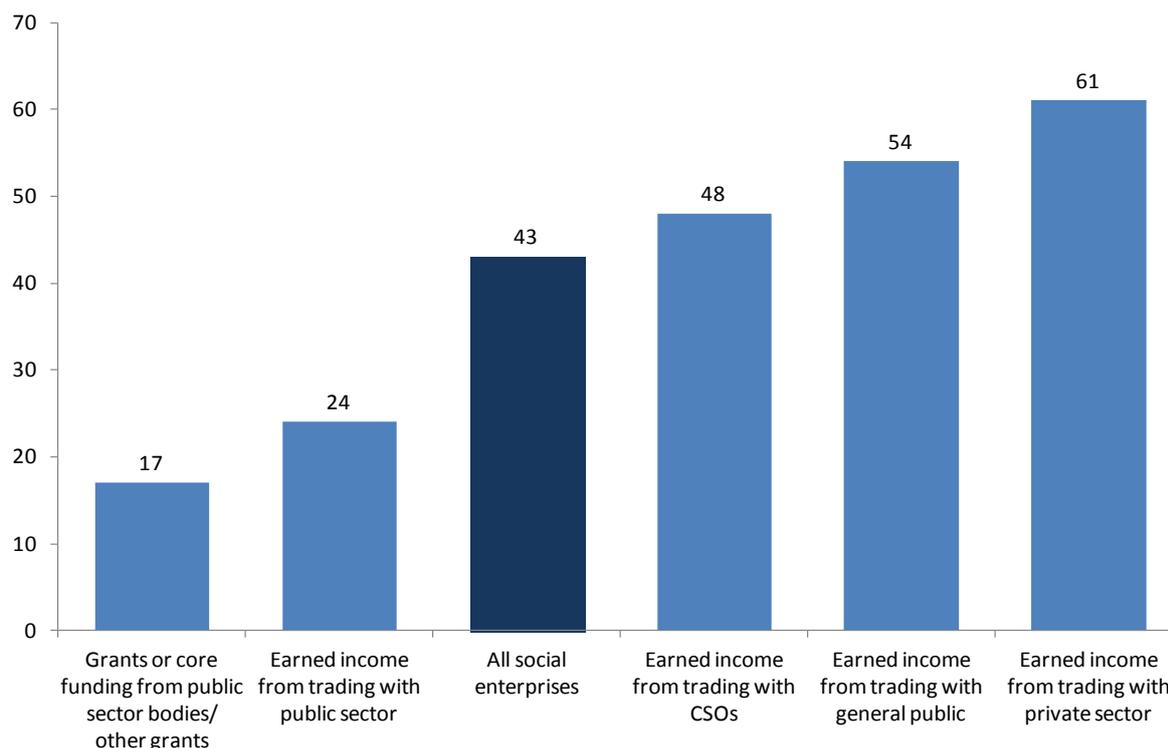
Source: Fightback Britain (2011)

Business plans and growth plans seen by the research team generally emanated from the start of the study period, and could not take account of changes which only became clear(er) towards the end of that period.

SE growth plans seem particularly vulnerable to exogenous influences, suggesting a need to reinforce the resilience of the sector and the accuracy of operational forecasts.

Table 13   Average ratings of research team (1-10) by trajectory of growth or contraction

	Financial security	Growth aspirations	Growth possibilities
Sales 'growers'	6.8	5.1	6.9
Sales 'contractions'	4.8	5.2	5.0

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[16] The results show the net effect of pessimistic and optimistic SEs

- Growers tended to record higher profits, while contractors made larger losses.

- Across all organisations, the net jobs position was relatively constant, with most organisations committing themselves to retaining staff and only 8 job losses in total.

- Most smaller SEs in the sample were 'lean' in the first place, operating with the minimum of paid staff, supplemented by volunteers, therefore leaving little room for manoeuvre.

- There were several instances of managers or management teams not awarding themselves pay increases, taking a pay cut despite relatively low salaries, or not renewing the contracts (or reducing the hours) of administrative staff, obviously such practices ameliorate the situation in the short-term but are not sustainable.

The sample is small but caution (as ever) should be exercised in trying to pick winners – many of the variables show no demonstrable link to growth or contraction. The exception, using Alter's financial classification (Figure 7), highlights a difference for partially self-sufficient SEs, all of which contracted across this period. Reported aspirations for growth were no different amongst this group than others, yet their experiences were clearly more negative. This group was also notable for its least intensive use of external business support. It might be conceded that a transition to greater self-sufficiency might never be a realistic possibility for partially self-sufficient SEs, given their business model, and greater levels of external help may have helped these SEs realise their growth ambitions. It is not clear whether the problem lies with the business model itself, the availability of support, or a failure amongst this particular SE group to diagnose problems and identify appropriate support.

Figure 11 Profitability of social enterprises by turnover
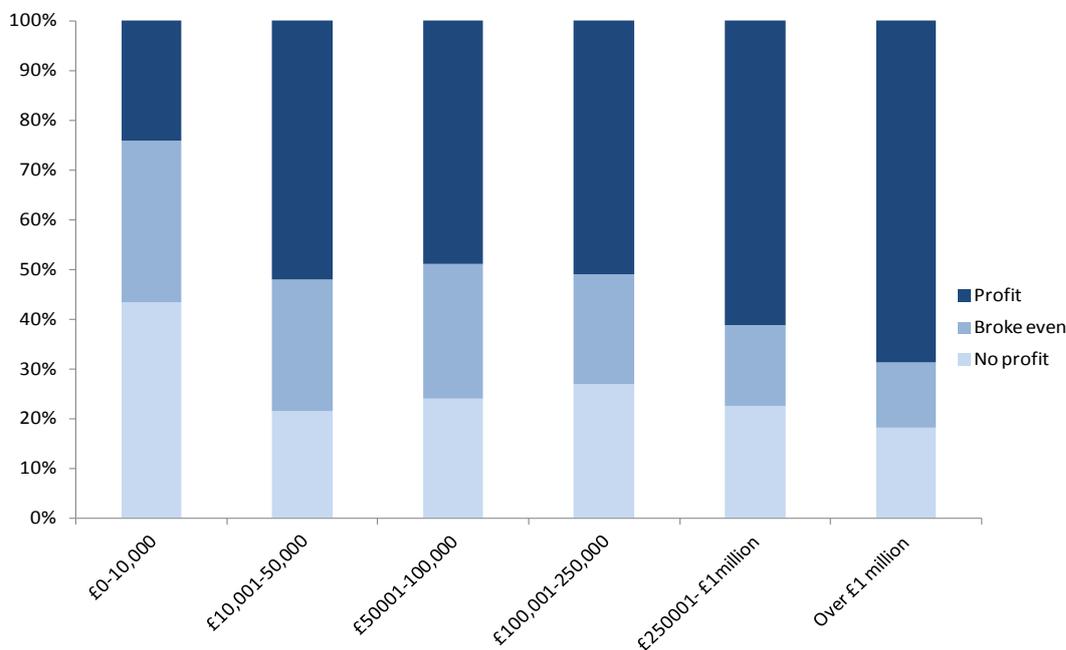
Source: Fightback Britain (2011)

Figure 11 shows that larger SEs in our study sample exhibited greater resilience in terms of profitability[17]. The starkest difference was between those with an income below £10,000 and those earning more: fewer than one in four of those earning less than £10,000 was in

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[17] Surveys reporting profits for CSOs encounter difficulties because of their inherent not-for-profit status.

profit, and one-sixth 'didn't know', indicating limited organisational capacity among the smallest organisations and to repay debt finance - which ultimately can only be done through profits.

5.3   Barriers to growth

Survey evidence of barriers to growth provides an indication of the range and incidence of the support needs of SEs, and how they might differ from other SMEs. Findings from the Social Enterprise Barometer (2010) and the Business Barometer (2010) show that, on average, perceived barriers reported by SEs and SMEs and their relative importance were very similar, suggesting common solutions may be appropriate in many areas. SEs however also tended to cite a greater number of obstacles, suggesting implications for their capacity across a wide range of areas.

5.3.1   Issues common to SEs and SMEs

- The economy was the most frequently reported barrier; SEs and SMEs it saw it as the main problem – though it was true of a higher proportion of SMEs.

- Around half of the SEs and SMEs reported competition in the market as a problem but less than 10 per cent of each said it was the main problem.

- Around half of all SEs and SMEs also reported issues around (i)Tax, VAT, PAYE, NI, business rates etc; (ii) regulations in general and (iii) cashflow, and around 10 per cent saw these as their main problems.

- Keeping up with new technology and poor broadband access were common issues for both groups.

- HR issues included general skill shortages and staff recruitment reported by around 1 in 5 of SEs and SMEs in both cases. Pensions were also reported as a problem by both at a rate of around 1 in 10.

5.3.2   Where SEs and SME s differ

The first three issues below were common to SEs and SMEs but reported more frequently and held in greater importance by SEs – particularly obtaining finance and lack of financial understanding.

- Obtaining finance was an issue for almost half of all SEs and around 1 in 3 of SMEs and SEs were more likely to view this as their main problem (1 in 6 versus less than 1 in 10).

- Financial understanding – the lack of it - was a reported problem for twice as many SEs as SMEs (33 per cent versus 15) and seen as the main problem by twice as many (8 per cent versus 4).

- Availability and cost of premises was a problem for more than 1 in 4 SEs compared to 1 in 6 SMEs though very rarely the main problem.

The most commonly reported deficiencies in the current study's telephone survey were finance-related - financial and cost management, raising external finance and investment readiness.   The two further areas of divergence between SEs and SMEs reported by the Barometers were management expertise and staff retention – both reported as problems more frequently by SEs than SMEs though rarely as the main problem.

- The shortage of managerial skills and expertise reportedly affected almost 1 in 5 SEs (18 per cent) versus around 1 in 10 (11 per cent) of SMEs – i.e. at twice the rate.

- Retaining staff was a problem reported by almost three times as many SEs as SMEs (17 per cent compared to 6).

The significance of the last two issues is not only their increased reporting amongst SEs, but the likely impact of these particular problems on an organisations' capacity to deal with other issues – which may help to explain why SEs report a greater number of challenges or barriers overall than SMES.

5.3.3 Perceived barriers to growth

In terms of barriers to growth, under-reporting or a lack of self-awareness about internal issues is common to SEs and SMEs. However, the emphasis both place on external factors could well be appropriate for SEs.

Rather than straightforward selling of commodities or services, SEs pursue multiple objectives, serving communities and/or trying to meet social and/or environmental objectives, complicating and constraining their business models.

The fact that SEs are often primarily trading with the public sector further constrains their incomes, their possibilities for action and ability to act quickly.

Many of our SEs recorded growth across the year and had plans to expand or diversify operations. For some constant innovation was a feature of their organisations, caused by the necessity of changing circumstances; for others a more stable trading environment prevailed. Some reported endogenous constraints (premises, skills, constitution etc), but many were exogenous (funding reliance, declining markets, competition, public sector uncertainty, availability of loan finance etc). Overall internal factors limiting growth were reported less frequently and were typically related to numbers (capacity) skills and capabilities of staff, or location and/or the space constraints of current premises.

Table 14   Reported obstacles to business success

	Social Enterprise		Business Barometer	
	Reported as barrier	Main barrier	Reported as barrier	Main barrier
The economy	**85**	29	78	**39**
Competition in the market	48	7	50	9
Obtaining finance	**48**	**15**	33	9
Taxation, VAT, PAYE, NI, business rates etc	47	7	52	9
Regulations	45	7	44	7
Cash flow	44	12	50	11
Lack of financial understanding	**33**	**8**	15	4
Availability/cost of suitable premises	**27**	**3**	15	1
Keeping up with new technology	26	2	21	1
Shortage of skills generally	22	1	18	1
Recruiting staff	19	2	17	1
Shortage of managerial skills/expertise	**18**	1	11	*
Keeping staff	**17**	1	6	0
Transport issues	16	1	14	*
Crime	**12**	1	8	0
Lack of broadband access	10	0	12	1
Pensions	10	1	10	*
No obstacles	3	3	5	5

Source: Social Enterprise Barometer (2010), Business Barometer (2010)
Figures in bold statistically significant at the 95% confidence level between the two surveys.

The nature of constitutions and governance arrangements were raised by some SEs, recognising that these too placed limits on what they could do (geographically-bounded; ability to raise finance; the need to work through committees etc.). Two organisations specifically noted their moral and ethical commitment to particular client groups, which led them to persist with more marginal operations at the expense of the organisation's bottom-line.

Further evidence is drawn from the State of Social Enterprise (2009), based on unprompted responses rather than predefined categories, therefore allowing SEs a more direct opportunity to report their actual concerns (Table 15).

- Once more finance and funding was seen as particularly problematic, with some two-thirds of SEs reporting this as their most important barrier. This was the only issue to be seen by a higher proportion as more of a 'barrier' than an 'enabler for success'[18].

- Similar proportions to those in the Barometer reported skills as a barrier, although a higher proportion (25 per cent) saw them as an enabler.

- The economy and government regulations were seen as problems by almost 1 in 5 respondents (17 per cent).

- 'People you do business with', beneficiaries and clients, volunteers and management committees or boards were seen as positive and business 'enablers' – characteristics which seem likely to be related to the social mission and ethos of SEs.

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[18] Fightback Britain (2011) separated the broader category of finance as a barrier into lack of, or poor access to/affordability of finance (44%) and cashflow (20%). Only barriers were described not enablers.

- Business support, of particular interest to the current study, was seen by almost equal proportions as both an 'enabler' and a barrier.

- 'Understanding of social enterprise' was reported as both a positive and a negative – suggesting that where there is understanding it can act as a business enabler but poor levels of understanding impede growth.

- Fifty per cent more SEs saw the lack of understanding as a barrier than the proportion that saw it as an enabler. They identified this problem without prompting - reinforcing the point about the need for greater clarity in defining 'social enterprise' and for that meaning to be communicated more widely and effectively.

Table 15 Enablers and barriers for SEs (%)

Enablers		Barriers	
Finance and funding	56	Finance and funding	67
Skills/training and development	25	Skills, training etc.	18
People you can do business with	25	Economic climate	17
Beneficiaries/client community	23	Government regulations	17
Volunteers	23	Understanding social enterprise	12
Management committee or board	14	People you do business with	12
Staff/employees etc	9	Volunteers	10
Business support e.g. advice	9	Accommodation	10
Increasing customers/users/demands	8	Nothing	7
Enthusiasm/loyalty/faith etc	8	Business support	7
Consumer understanding of social enterprise	8	Other	6

Source: State of Social Enterprise (2009)

5.4 Management and leadership

5.4.1 Skills gaps

Although only 17 out of 102 respondents to the telephone survey cited a management skills gap as a barrier to growth, 33 indicated that they had gaps in at least one specific skill area (Table 16). There was no discernible pattern to these gaps by size of business or by previous employment experience of managers, though the origin of enterprises may have an influence. Management skills gaps were reported by 20 out of 43 (47 per cent) enterprises starting as voluntary or community organisations, compared with 13 out of 55 (24 per cent) of those originating from other sectors. There were particular perceived deficiencies in marketing, human resources, product and service innovation, operational planning and strategic planning – all clearly instrumental in planning for growth and making it happen.

Among our sample there were clear deficiencies in areas such as business planning and strategy formation, with greater interest in the 'vision' for the SE than the marketisation of a business idea. As with mainstream SMEs, some entrepreneurs are more interested (and capable) of starting a business than managing one, especially once it reaches a particular size or complexity. Awareness of this was not uncommon, with the founding entrepreneur often ceding operational control to a management team at this point.

Table 16   Self-reported deficiencies in management skills

	No reporting skill deficiency
Financial management	19
Capacity to seek external finance / fundraising	17
Marketing	16
Human resources	12
Capability to develop new products and services	12
Cost management	11
Investment readiness	11
Operational planning	10
Strategic decision making	8
Spotting opportunities	7
Creating teams	5
Understanding risk	4
Other	13

Smaller SEs often had issues with capacity, with senior managers bearing a disproportionate burden. The same was true of some of the medium-sized businesses, a number of which had failed to fully make the transition to the more formalised ways of working required in a larger organisation, in terms of planning, team communication and delegation. Arguably, this was one of the proximate causes of the management crises which had affected several of our sample in the recent past; for example, a (now ex-) manager free to pursue a risky course of action unhindered because of a lack of oversight and teamworking.

Even when this is not the case, 'solo' managers of SEs may feel isolated and under considerable pressure, believing the success or survival of the enterprise to be primarily dependent upon them. The burden can be considerable – as well as responsibility for the livelihoods of valued employees', potential failure can carry heavy moral obligations, with a risk of letting down needy beneficiaries and failing to continue supporting a worthwhile cause.

Management tensions in larger organisations were more evident where there had been diversification away from core services (as opposed to diversification into closely related areas, which has generally been a more successful strategy). While these may have led to growth, staff were not always skilled in these new areas and the human resource cost was consequently higher. Several noted that the current economic climate had led to a retrenchment and a more diligent and questioning approach to costs and structural issues. In one, the shock of realising that they faced potential closure led to a focus on cost efficiencies, reducing their overall costs by around 20 per cent, and leading to the creation of a small surplus after years of losses or at best breaking even. By contrast, one of the organisations had simply concentrated on delivering its core service, with no innovation or diversification in recent years. This afforded it stability and efficiency, with our researcher indicating that it 'operated like clockwork'.

5.4.2   Bringing in management experience from outside

The longitudinal study revealed substantial variation in managers' previous experience, ranging from senior management in multinational businesses or the public sector, to career moves from particular operational areas (e.g. accountancy, HR and marketing), requiring the development of new skills. Larger organisations tended to have management teams staffed by 'professional' managers, recruited specifically for their skills – most were able to bring a

clarity of vision, though they also had (or were required by the board to have) an affinity with the enterprise's social mission and VCSEs in general. Indeed, some had 'downshifted' from a private sector business for precisely these reasons. Overall, these organisations tended to be better managed and accessed a greater level and variety of training, though training still tended to be restricted by the availability of funds.

The external recruitment of senior managers – as opposed to promotion from within – was common among larger SEs. However, this may well come about due to a crisis in the organisation, rather than as part of an ordered progression. There is thus some recognition that management skills are key to developing a social enterprise beyond a certain point, and that the relevant skillset may well be rare among existing staff. Irrespective of other motivations and values, SEs need to run efficient businesses, in order to secure the future of the organisation, while also treating their staff decently. Some find this difficult and almost countercultural. The counselling service, for example, expressed concern that relations with staff were more informal than was appropriate for a commercial operation. The manager conceded that a subtle culture change was necessary, to establish some distance between staff and himself, and for him to assume a more effective performance management role.

Case Study 12: Tensions introducing change

The manager of a small manufacturer had recently been recruited to the SE from a larger operator in the private sector. He was brought in specifically to improve the sustainability of the business; recruited to deliver change, formalise the business plan, and review all areas of operation, including increasing sales. On his arrival production stood at one-third capacity and during his tenure quickly rose to half. This meant that hourly-paid staff were increasing their hours, but doing so reluctantly.

Staff felt that the organisation's relaxed atmosphere was threatened by the increase in productivity. The manager felt that the attitude of staff stemmed from being a co-operative, which had tolerated complacency amongst the workforce. He also noted limits to his operational freedom, because of the committee structure of management and governance, and the culture of the organisation. These slowed decision-making down considerably and the ability to move swiftly in a commercial environment, because of the necessity for consultation and approval for decisions.

A key issue here is the early identification of the point at which external management expertise is required. If this does not occur, the SE may hit a bottleneck. This may – to an extent – be a Catch 22: in order to identify the need for additional management expertise, a degree of strategic planning expertise is necessary in the first place.

5.4.3 Cultural issues in addressing HR issues

Irrespective of other motivations and values, SEs need to run their businesses efficiently including how they deal with staff, in order to secure the future of the organisation, but some

find this difficult and almost countercultural. One sample SE outsourced its HR function and found it useful in dealing with redundancies, but ultimately discontinued use when they felt the HR supplier was 'overbearing' and not consistent with their value system. Several organisations practice a degree of leniency when employees transgress, though ultimately they respond in a business-like manner if the problem persists – in order to prioritise the organisation's survival.

<u>Handling redundancies and pay cuts</u> Several organisations had to shed staff during the period of the study in order to remain viable, while other management teams sought to insulate staff from the effects of funding cuts; one said that 'management haven't taken a pay increase, but the [customer service] staff got 2 per cent'. However, this has not always been possible, and redundancies have been implemented in several organisations, while another has moved to a four-day working week. These decisions tended to be reached without external support or assistance; for example, managers were resistant to diagnostics pinpointing areas where redundancies could be made, as they consider such tools blunt and sweeping, failing to take account of the organisation's social mission and sense of responsibility to the individual.

Three services faced issues of leadership succession at the start of the twelve months. All three managers had been deeply involved in their organisation for more than ten years with a great deal of tacit knowledge of the business and its operations. By the end of the research period the issue remained unresolved in each of the organisations, although efforts to identify and groom a successor had started. Governance arrangements in some SEs also changed across the twelve months, not only because of 'natural', but also in a deliberate, strategic effort to refresh and re-energise the board function.

5.4.4   Using the board's talents to address gaps

In some instances management deficiencies were compensated for through the capabilities of board members, although in some cases substantial gaps remained. The manager of a visitor attraction in the sample was very experienced in the sector, and particularly able in terms of managing the organisation as a whole. His role was further complemented by a well networked chair, with numerous contacts and the ability to 'pull strings' locally on behalf of the SE.

> **Case Study 13: Combining management and board talents**
>
> A residential care organisation in the Midlands, an independent local charity, competing against larger organisations for funding, appointed a 'project manager' with extensive background in the private sector. As managing director of his own company, his background was not in care, but he had good management skills and experience, financial and marketing knowledge, and was well-networked in the local area. It was important to the organisation that the new appointee's attitudes and personal philosophy fitted well with the organisation's mission. It was also vital that his management style was sensitive to the specific circumstances of the organisation.
>
> A key feature of this successful internal change was the effectiveness of the board of trustees, with whom the project manager forged a relationship of mutual trust. The board was flexible in term of accommodating changes to its own composition, so as to access new skills and expertise. Skills were also brought in by the new project manager - specialist volunteers from his network of contacts. His networking and marketing experience and the board's receptivity were also critical to boosting of income from sources other than grants (sponsorship, events etc.). Tight financial management of the organisation, with great attention to detail, has been assisted by sensitively negotiated changes to staff practices - supported by strategic training investments – reducing costs and improving the service.
>
> As well as managing internal change, the project manager has worked effectively externally, lobbying local stakeholders on behalf of the organisation and to forge alliances. The constrained financial environment has delayed expansion plans, but improvement projects have been instituted, and a sound business position has been established to take advantage of future growth opportunities.

Having board members take on more responsibilities did not always prove beneficial. In one of the furniture stores in the sample two board members volunteered in the office, assuming some of the supervisory roles formerly undertaken by the manager. This caused problems in terms of unclear reporting lines and tended to undermine the manager – illustrating tensions which may arise with trustees and good intentions and how the multiple objectives of the SE, rather than a focus on the financial bottom line, may make it more difficult to implement criteria about what is and is not helpful.

In some cases people with particular expertise worked alongside the SE on specific projects, contributing knowledge, and sometimes temporarily seconded from a stakeholder or partner organisation to work on a joint/consortium bid. There was certainly evidence in at least three SEs where public sector partners (local authority/JCP/DWP) were aware of capacity issues within SEs to support bid-writing and used the expertise and resources of their own organisations in order to compensate.

Obviously this enhanced capacity in the short term and, in at least two instances, also meant that over time the person 'moved in' – finding themselves increasingly in sympathy with the ethos of the organisation and keen to be a part of it. This also gave the SEs the opportunity to appreciate what the individual could bring and to overcome reservations about the person's 'fit' with the organisation and its mission, even where the need for an extra person had been undiagnosed previously.

5.4.5 Addressing gaps – training

While some leaders in the sample had undertaken formal management and leadership training in their previous roles, it had rarely taken place during their SE employment. When training did take place it was generally under particular circumstances: when the training was highly relevant (rather than generalised capacity-building); when it was free (e.g. a two-day leadership course oriented towards the broad sector of one business) or relatively low cost (e.g. the SEC's Emerging Leaders course, ACAS training on people management issues, a subsidised MBA); and preferably reasonably local, thereby minimising transport costs and time away from the SE. One manager was on a programme at the School for Social Entrepreneurs, but thought this was at a higher level and probably too expensive for most SEs without some form of subsidy.

Several managers of micro and small enterprises (in most cases, the only senior manager) would have liked more training in 'generic' management areas, but prohibitive costs led them to focus on more sector-specific and/or essential training (e.g. CPD, seminars to keep updated on regulations).

Many managers had or would use a mentor for support as an effective way to improve their management style. Several had been mentors to other SEs, mainly informal, and found it beneficial on both sides – evidence of the sector's ability to help itself and the benefits of a shared, common understanding of the purpose and ethos of SEs, which allows support to be framed appropriately.

5.5 Strategic capacity

Strategy was generally described as the responsibility of the board (or management committee in co-ops - functionally similar) with input and scrutiny from other stakeholders on occasion (e.g. at an AGM). Having said this often strategy documents were composed by the manager or CEO of the SE and brought to the board for approval. In some cases, this amounted to little more than 'rubber stamping' a finished plan, whereas in others the board was more fully involved, contributing expertise and time, and often leading to the operationalisation of a broader strategy. The degree of board involvement depended on (i) the skills of the members and their previous experience; and (ii) their perceptions – and the perception of management - of the extent of their role, a continuum between simply fulfilling the minimum legal requirements and being fully involved in and leading strategy formation.

Case Study 14: Limited capacity limited still further

There is an argument that organisations most in need of support are often those least able to identify or diagnose their problems and therefore to seek appropriate support. A leisure and training organisation in the North East, faced with financial difficulties, opted for retrenchment and reducing costs, including the release of its experienced manager and administrator. The replacement *single* appointee seemed to perform many of the manager's and administrator's tasks but had no official job title (or indeed a job specification) and, although energetic, had limited qualifications and experience. The loss of management/administrative expertise left the organisation deficient in terms of management skills, operational and strategic, and in terms of leadership and internal coherence.

Moreover, the displaced manager also formed the organisation's main connection to key local networks upon which its successful restructuring depended. This worsening situation developed because trustees had little understanding of the importance of financial aspects of the enterprise in relation to the leisure-related aspects on which they primarily focused. Structurally there was little interaction between the trustees and members of staff – allowing limited opportunities for the exchange of information and knowledge.

The restricted business perspective of trustees was reflected in (i) the absence of a strategic plan, (ii) failure to consider potential collaborative market opportunities outside the narrowest of ranges, and (iii) inability to recognise that cost savings that reduce the capacity of the organisation are likely to lead to further difficulties - even in relation to sustainability objectives rather than growth. The organisation indeed became unviable and was forced to acknowledge this as a crisis when a proposed bank loan to be secured against property assets was not forthcoming

In many cases, strategy concentrated on developing the business to deliver greater cost efficiencies and maintain the social mission, but priorities were often driven and shaped by external forces - in particular the likely size of revenue streams, and their precarious status.

- Seven SEs in the longitudinal sample did not have a recent formal/written business plan, roughly the same proportion as in the telephone survey (one in five).

- Formal planning was less common among smaller organisations than the larger ones (Table 17).

- Enterprises starting in the social economy were the most likely to formally plan (Table 18) and those 'spun out' from the public sector, possibly the result of custom and practice in former roles or part of the requirements of an ongoing relationship with local authorities.

Table 17   Proportion of respondents with a current business plan (n=100)

	Number	Av. Income	Av. % deriving from earned income
Current business plan	81	£1,615,836	79.6%
No current business plan	19	£408,588	85.3%

Table 18   Proportion with current business plan by origin of enterprise (n=99)

	Non-VCSE	VCSE
Current business plan (n=99)	63%	86%

5.5.1   Business plans - content

Business plans varied in content and the manner in which that content was determined. Some were thorough and regularly updated; others were only updates of previous plans, with little attention to subsequent developments or the need to act strategically. There was also a sense amongst some that documents need only be fit for purpose, rather than comprehensive, but this could find an organisation not fully explicating (and therefore working through) how they would achieve what might turn out to be unrealistic and aspirational goals. In this way some business plans were deficient and did not contain all the necessary elements. This may not have become obvious, however, as in certain cases it was also evident that the plan was not actually being followed in practice.

Larger organisations tended to have an overall annual plan, some with further plans for divisions within the business, each with their own divisional objectives. In smaller organisations, the situation was more varied. In some cases, those without a full, formal business plan substituted partial plans covering, for example, certain operational areas or plans to achieve cost savings or cashflow stabilisation, rather than planning across the whole business. For these SEs and others without a full plan, the business plan essentially consisted of continuing to operate as they had done in the past.

5.5.2   Business plans – route maps or side issues?

Even where a plan existed, a number of organisations did not follow it. A business plan may only have been written to meet a specific external purpose – for example, due to pressure from funders or to secure a particular grant. This is analogous to a small business writing a business plan primarily to obtain a bank loan, going through the motions then setting it aside, rather than seeing it as a useful process and their own dynamic, living document. The act of simply thinking about and constructing the plan usually benefits the business, whatever form the plan itself eventually takes. This is usually more constructive than outsourced business planning, which may produce a more professional result but does not require the enterprise's management to reflect, on what they do and how and where they want to go, on an ongoing basis.

Many SEs adopted this approach, a work in progress, laying out broad plans for the medium term (2-5 years) and more immediate objectives and detailed plans for the current year, but then forced into changes when, for instance, funding streams were withdrawn. A good plan, of which there were several examples, would cover contingencies in such an eventuality, or have the scope for flexibility in the face of events outside the control of the business. This is

particularly appropriate with the larger proportion of the sample SEs operating on the basis of spot sales or short term (annual) contracts.

5.5.3 Business planning practices

A number of SEs across the size range were looking to both the short and longer term in their planning and strategic development, preparing for numerous scenarios. In some cases this was prompted by need; development plans needed to be tested and funding sought. For those same enterprises having development plans was the norm, with business planning as an ongoing activity.

An operational bias towards firefighting was evident in a number of SEs – reacting to crises as they appear rather than trying to foresee and avoid them, along with a degree of opportunism. This was more prevalent amongst those reliant on public sector funding, directly or indirectly, and more specifically where there was a single source of funding (e.g. a block contract). In one case, for example, the removal of funding for a social firm meant that - at one point - they could no longer employ any of their target beneficiaries, thereby compromising their social mission. This is typically the greatest source of worry among the publicly-funded enterprises, and planning around this level of uncertainty is or should be a priority.

5.6 Seeking the finance for growth

5.6.1 External finance

Fewer SEs than SMEs thought they would be able to grow through the use of internal finance alone. According to evidence from the Business Barometers, although a similar proportion of SEs as SMEs had actively sought external finance in the previous six months (17 and 19 per cent respectively), it was seen as important by a higher proportion of SEs (56 and 49 per cent respectively). This apparent contradiction may be partly explained by the conflation of external finance and regular revenue funding by SEs, with some limiting the sources they would define as 'external finance'.

The purposes for which external finance are sought were similar for SEs and SMEs, with no significant differences for trying to obtain working capital or for buying equipment or vehicles, the most frequently reported reasons (Table 19).

SEs are significantly more likely to seek finance for improving buildings, refinancing and for marketing than SMEs.

Table 19   Reasons for seeking finance

	Social Enterprise (n=82)	Business Barometer (n=121)
Working capital, cashflow	47	59
Acquiring equipment or vehicles	22	28
Improving buildings	**15**	4
Research and development	10	3
Refinancing the business	**9**	2
Buying land/buildings	5	6
Marketing	**4**	0

Source: Social Enterprise Barometer, Business Barometer (2010)
Figures in bold are statistically significant at the 95% confidence level between the two surveys.

Looking at unmet demand for finance, the State of Social Enterprise survey (2009) found that 71 per cent of SEs reported that they obtained at least three-quarters of the finance they requested. This may suggest that, at that time at least, most demands were being met – although it may also be the case that organisations are self selecting and those most likely to have their applications declined do not apply for finance in the first place[19].

The source of finance was perhaps the most significant area of difference between SEs and SMEs (Table 20**Error! Reference source not found.**). Banks were the most common source for both SMEs and SEs, but SMEs were substantially (and significantly) more likely to have used banks and overdrafts. Interviews revealed that this may be partly due to restrictions in the constitution of some enterprises, or because they could not meet loan guarantee requirements due to a lack of assets: one manager noted that 'the only way I could do that would be to put my house up, but there's no way I'm doing that'.

However, it was also commonly due to a reluctance among managers to take on debt. Several preferred to 'live within their means' – particularly in the current economic climate - so as not to risk burdening the organisation with large debt repayments in an uncertain future or, more significantly, to risk losing or damaging the organisation through failing to meet repayments. SEs were also significantly more likely to access sources typical of CSOs and not usually available to SMEs (grant finance, donations etc), although this finding may be complicated by confusion over revenue funding.

Table 20   Types of finance sought

	State of Social Enterprise	SEB (n=82)	BB (n=121)
Bank loan	18	31	**46**
Grant	29	**20**	2
Bank Overdraft	5	17	33
Leasing or Hire Purchase	n/a	13	10
Mortgage for Property Purchase or Improvement	n/a	6	11
Credit Card Finance	n/a	5	2
Local Authority/Town Hall funding	11	**5**	0
Fundraising/Donations	6	**4**	0
Equity investment	n/a	3	*
Charitable trusts	7	3	0
Loans from family/friends etc.	5	0	**6**
Factoring	n/a	0	4
CDFI	5	-	-
Other	13	-	-
Any bank finance	24	47	**79**

Source: Social Enterprise Barometer, Business Barometer
Figures in bold are statistically significant at the 95% confidence level

The State of Social Enterprise survey (2009) showed somewhat different results, a lower proportion of respondent SEs seeking any bank finance. Only 24 per cent reported seeking a bank overdraft and/or loan, versus 47 per cent of SEs in the SE Barometer and 79 per cent of organisations in the Business Barometer. Grant finance is much more prevalent for SEs.

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[19] *Fightback Britain* found that the success rate was sensitive to the source of finance. Three quarters of those seeking equity finance were successful, compared with 43% seeking an overdraft

Such differences may be the result of a methodology which omitted a number of Barometer categories (subsumed within 'other').

The cumulative evidence indicates bank finance is not widely used by SEs, although small SEs were more likely to seek finance than micro or large organisations, and they behave like their SME counterparts in this area.

There were varying levels of knowledge about different financial options, how to assess the relative merits and subsequently access the products - suggesting a skills/capability issue amongst some SEs to seek and secure external finance.

5.7   Achieving sustainability: financial security

As the three most prevalent and prioritised targets were finance-related, sample SEs from the longitudinal study were awarded scores, related to their relative financial security. Scoring was carried out by the research team members, sometimes in conjunction with the SEs themselves, in order to test and verify understanding. Scores took into account the profitability of the business, current holdings of reserves and overall recent business performance.

- Financial security scores were mixed, ranging from 2 to 10 (out of 10), with an average across the group of 6.4.

- Operating profit ratios ranged from -31 per cent (an exceptional figure due to a large one-off rise in operating costs for work on buildings) to 20 per cent, with a weighted mean of approximately -3 per cent, indicating a small average loss.

5.7.1   Financial management
While there was some outsourcing of payroll and accounts, most organisations – other than the very smallest - undertook their day-to-day bookkeeping internally. Use of an off-the-shelf accounts package – such as SAGE – was common, with modules relevant to the organisation's circumstances, although some used more specialist accounting packages (e.g. some of the manufacturing organisations). Responsibility for day-to-day financial management fell to a member of the senior management team, although usually not as a dedicated post within smaller SEs.

Where financial responsibility was delegated to a non-specialist, problems had arisen in the past where financial systems not fit for purpose had been implemented. This had led, in one instance, to a critical situation and the dismissal of the member of staff. Financial management skills in smaller organisations were fairly rudimentary, but generally fit for purpose, and backed up by advice and support from their treasurer. Frequently, smaller organisations' accountants provided simple advice without charge as part of an annual package.

Cashflow, and in particular the predictability of cashflow, varied substantially within the study group. At one extreme, public sector SLAs guaranteed a proportion – sometimes a large proportion - of income for the year. In some instances these were paid annually in advance, relieving some of the urgency of managing cashflow on a month-to-month basis and allowing organisations to plan and staff or resource accordingly.

While basic accounting functions might be sourced externally, <u>transformative</u> solutions in financial management tended to arise from within the business itself, through the recruitment of new staff, or a change in emphasis for management time or focus.

The role of the board could also be important in this connection; assuming members had regular access to the accounts (i.e. quarterly rather than annually) and were sufficiently interested and capable of interpreting financial information.

5.7.2   Bad debts

The need for good financial management skills was most evident in those businesses with variable cashflow. In one organisation, the previous management team had not actively pursued debtors and some customer accounts had been written off entirely. The new manager instigated a more proactive approach to these accounts, ensuring regular follow-up calls and billing reminders, and refused to deal with that customer again until previous debts were paid.

Some incurred bad debt through trading on account - generally not a factor in trading with the public sector. However, there were a number of instances recent of local authorities being slower to pay, possibly because of staff changes, with a deleterious effect on the SE because of its narrow margins and low reserves. In other cases, the social mission can lead to cashflow difficulties. For example, the Fairtrade organisation had targets for purchases from producers. However, with the downturn in consumer expenditure, their sales for that period rose by less than expected and donations fell, leaving them with large holdings of stock and a cashflow balance which was worse than forecast.

5.7.3   Payment terms

The recession also figured in terms of payments to creditors. Payment terms generally were tightened, which created difficulties for those SEs lacking working capital. In addition, the ethos of some was to ensure that they paid their accounts on time, while their debtors were paying increasingly late, creating a cashflow imbalance. With the recession, this situation had worsened, occasionally leading to a large, potentially unmanageable cashflow imbalance. In terms of the reliability of local authority payments for spot contracts and other invoices, several noted that their authority often failed to meet the 28 day deadline, but a small number reported this had worsened recently. Several noted that payments and contracts were delayed because of the frequent new appointments of local authority staff and a lack of clarity about roles and responsibilities following repeated reorganisations.

The need for diligence also applies to checking that amounts to be paid are accurate - one organisation was presented with an exceptionally high utility bill, because of mistakes in assessment dating back several years, and amounting to more than 10 per cent of the organisation's annual revenue. If the utility provider had not agreed to settle at a reduced rate, this would have led to a financial crisis for the organisation.

5.7.4   Purchasing policies

Diligence is also needed when sourcing supplies, ensuring that the organisation buys at the best possible price. However, several organisations admitted that the cost-saving exercises they have undertaken because of the relative crisis caused by the recession (or, in some cases, because of a change in management team) represented the first time they had systematically examined whether they were getting best value for some years, as opposed

5.7.5   Pricing policies

For the most part, our sample considered their prices to be set at an appropriate level, with the calculation being generally based on simple market research of competitors combined with a cost plus approach. However, the uniqueness of some social enterprise business models can lead to difficulties in identifying an appropriate comparator business. Car clubs, for example, have been concentrated in London, causing difficulties in establishing the 'correct' price in other regions. The car club in our sample changed their prices during the study period as a result of monitoring management information on a regular basis.

5.7.6   Information for planning

Financial management and cashflow management can be constrained by poor or uninformed choices in purchasing sales and accounting software. Tight budgets and a lack of planning meant one retailer had an Electronic Point of Sale (EPOS) system designed to track purchases and automatically feed this information into their chosen accounting software. This 'black box' system prevented detailed analysis of cashflow trends by product line and therefore limited the potential for detailed planning.

Businesses trading with consumers used historic seasonal figures as a basis for planning, although fluctuations from year to year could be large – for example, the severe winter weather of 2010/11 led to difficulties in transporting products and reduced footfall and sales. Where the organisation had limited reserves, this necessitated short-term borrowing to provide working capital.

5.7.7   Reviewing donations, using existing client data

In response to a fall in donations from individuals across the study period, some SEs had sought to increase corporate donations (e.g. lobbying for free advertising in the media, or donations of prizes for raffles). The success of such initiatives was largely dependent on the networks of the manager to identify likely candidates followed by the development of a compelling case for the donating company – including, in many cases, (i) a promotional boost from having their name associated with a good cause, (ii) making clear how it will meet their needs by this contributing to their CSR, (iii) on occasion creating an appealing case to company staff in order that they too get behind the cause and the company reaps additional benefits in terms of improved levels of motivation.

Case Study 15: Crisis drives good practice in reviewing donations

One organisation noted that income from donations was always affected by disasters elsewhere (famine, tsunami etc), as donors understandably tended to divert their money to the more urgent or deserving cause. Another reported that an internal crisis - a tribunal case which they eventually won - was publicised and prompted generous, additional donations (totalling around £12,000) from supporters keen to protect and preserve the organisation.

As in other areas, this crisis and the subsequent learning experience prompted the organisation to take the time to scrutinise and rationalise their list of voluntary donors whom they then targeted with promotional literature. The list was culled significantly and subsequently reduced by two-thirds to a more meaningful group. This reduced the amount of resources necessary to contact supporters and produced a better rate of return. The process also meant that in future messages to donors could be targeted more appropriately, concentrating on developing relationships so donors feel more involved and therefore possibly improving the chances of the SE being prioritised in their giving. It was also clear that the list should be reviewed more frequently. The other action prompted by the tribunal case was for the SE to arrange insurance against any potential future claims.

5.8   Sales and marketing

Depending on their model of earning, SEs must direct marketing activity at a variety of different audiences. In particular, many models rely on marketing to (i) the buyers of the product or the funders of the service; (ii) the beneficiaries themselves; and (iii) a variety of signposting and support organisations. In many cases, marketing will also be directed to the general public not only for purchases, but in order to encourage donations of money, volunteering time and/or goods.

1. In the entrepreneur support model, the target market is largely other SEs, but most organisations in this category would also market themselves to larger business support funders, brokers etc in order to obtain funding to subsidise/deliver services and ensure that organisations signpost clients to them.
2. Organisations using the market intermediary model and the employment support model must market themselves to their retail and/or wholesale customers (e.g. the fair-trade organisation targets both retail customers and retailers themselves) but also to intermediary organisations which aid them in locating beneficiaries, or directly to the beneficiaries themselves.
3. In the fee for service model, marketing is mainly directed at the clients of the service, which may be customers (e.g. the visitor attraction) or beneficiaries (e.g. the furniture retailer) or intermediary organisations which signpost customers and beneficiaries.
4. Service subsidisation model organisations mainly market themselves to direct purchasers of the goods or services or signposters and intermediaries, if that is relevant to the product.

5. In the organisational support model, the main target audience for marketing activity is public sector decision-makers.
6. Those that fit the final model - co-operatives – may fit into any (or several) of the above categories. Being a co-operative does not in itself imply any particular target audience, apart from those which earn their income purely from membership fees, which will market themselves to those with the relevant interests.

Sales and marketing to the public sector was generally sound, with managers responsive to client needs, having a full knowledge of the organisation's offer and how it differed or added extra value to others offering a similar service. This applied to those with SLAs and longer term arrangements, and to those more dependent on spot sales. Equally, those selling direct to beneficiaries or marketing to intermediaries had the skills and knowledge required to sell their services effectively. For the most part, this skillset and knowledge were built up through long experience in their chosen sector, networking with clients and intermediaries, awareness of funding streams, and peer exchange of relevant information. There were some exceptions to the general pattern, with several of the organisations reliant on public sector funds apparently having limited knowledge of local authority commissioning bodies, for example.

In addition, these were not 'generic' marketing skills – they were highly specific to the sector and the organisations. Marketing more generally to the public, especially among the smaller organisations, had proven more problematic, in terms of both promoting products/services and appealing for donations (where relevant). Where organisations were in direct competition with commercial alternatives the associated social mission did attract some custom, but usually only to a small degree. A co-operative, for example, indicated that, to some extent, their core clientele could be stereotyped as 'sandal-wearing left-wing vegetarians', who were prepared to seek them out, but that they needed broader appeal to increase their financial security and viability.

Creating broader appeal may involve wider marketing and communication of the meaning of 'social enterprise' in order that the term becomes more commonly appreciated and understood. This would create a context for individual SEs to concentrate their limited resources on communicating their own particular combination of mission, objectives and ways of working.

Case Study 16: Calculating the value of promoting values.

One faith-based SE wanted to find out more about the effects of its religious mission on the business and potential clients. They neither wished to hide their religious affiliation nor to push it on to others – seeing it as part of their Christian duty to be truly inclusive and welcoming. However, the housing and support they provide to care leavers and homeless teenage mums needs more funds and the more overtly commercial arm of the organisation – a children's nursery needs to advertise. The SE wants to carry out research into the importance of a religious connection in the choices parents make about nursery provision and childcare. No resources are available but the SE wanted to test (market research) whether and how far the organisation's religious values influenced potential consumers – do they act as a USP and should the religious mission be promoted? In contrast, there were no doubts about the benefits of promoting values for the SEs with an environmental purpose (a more 'current' theme without the same sensitivities); these SEs were explicit in declaring their objectives to clients and beneficiaries.

Most SEs reported limited marketing activity because of small budgets and they did not measure its effectiveness; promotion generally certainly could not be characterised as slick (with one or two marked exceptions). Marketing to the public usually consisted of flyers and adverts in local media, some use of online social networking (most had a Facebook page, although some were rather inactive) and their own websites. The majority of smaller organisations, when asked about the website, were almost apologetic, stating that it needed updating and redesigning (or was in the process of being updated). Some placed leaflets with appropriate distribution outlets (e.g. the museum, working through the local tourism body). For the most part, they relied on word of mouth – often the case with mainstream SMEs – and rated (anecdotally) as the most effective channel through which to promote their products.

The shopfronts and premises of some of the SE retailers and smaller attractions were unappealing and did not always communicate their purpose clearly. Locations were often away from busy areas, which led to there being little passing trade (but which therefore attracted lower rents), such that the main client base was people who had specifically sought out the business – frequently, as noted above, those attracted by the social mission. This applied less to the larger organisations aimed at the public (e.g. the visitor attractions, leisure facilities and the restaurant), which had dedicated marketing managers and slick, professional publicity. Amongst the smaller organisations there is sometimes a sense of working within a limited sphere with others 'in the know', rather than seeing a need to reach out to a wider audience and then how that might be accomplished.

5.9   External relationships and building partnerships

Networking is popular amongst most SMEs and rated very effective, supporting the informal exchange of information and to build relationships which expand capacity to bid for contracts. The next step is how to include those outside current networking arrangements, in

order to extend benefits and the potential 'offer' of the sector to contracting bodies, beneficiaries and customers.

The SEs in our sample had a variety of external relationships – with networks, funders, professional bodies and others – with a variety of depth, geographical focus and purpose, many of which they turned to for support. This section examines these relationships and how they might change, including the impacts of budget cuts.

5.9.1   Relations with other social enterprises

Findings from the study suggest networking with other SEs is common, with some concentrating on their own (or related) sectors, and others networking more widely amongst SEs or CSOs in general. This mostly involves informal information exchange, but also proposals for joint working and the development of loose groupings with the potential to bid for contracts. In a minority of cases, these have developed into more formal consortia which had submitted bids. Joint working in one case even extended to personnel sharing on an informal basis, with organisations in a slack period being willing to 'lend' staff – usually on the administrative side – to other VCSEs with a temporary shortage or recruitment problems.

Assembling members for a consortium – if necessary – was considered generally unproblematic due to the prevalence of networking. However, taking the next step towards formalising the relationship and the associated practical and legal issues involved were slightly more problematic. While some noted that they had already identified a lead partner with the skills and experience to draft agreements, others were wary of taking the final step into a full-blown consortium because of concerns over their legal responsibility and duties, particularly in case of something going wrong.

The role of a consortium lead partner, for example, has extended in some cases to disseminating information about how the consortium would work in practice and building bonds to smaller or un-networked organisations, which may also have little experience with major contracts. For instance, a care service organised a 'tour' of local providers to meet other organisations in a similar position and observe their practice. While this began as a means to develop a formal consortium, two organisations actually began to discuss a merger. However, there may also be organisations which are either nascent or simply 'out of the loop' of networking – where encouragement and support would be beneficial.

SEs in public delivery had the strongest connections with others in the same sector, often facilitated through other pre-existing networks – for example, through the work of local authorities in bringing together their contractors, or local churches bringing faith-based organisations together. One had even talked about 'franchising' their SE model to other churches. Franchising in general was not well-supported however; most thought that the key part of their model was the social ethos, which is the hardest part to replicate elsewhere.

Those not involved in public services delivery usually had fewer and weaker network connections within their sector, perhaps because they were directly in competition with others. Where there were established protocols mitigating competitive relations (e.g. furniture stores with a circumscribed area of operations), close networks between non-competitive neighbours sometimes seemed to form.

The evidence also suggested that the sectors where there are obvious strong synergies also exploited natural links to mutual advantage. The leisure centre group worked with many

local sports providers in their locality, while some public-facing organisations advertised other relevant local organisations (e.g. through leaflets in a display rack). Those with clients as beneficiaries were in a similar position and usually provided cross-referral to and from other similar services if they felt their own service was not best-suited to a client's circumstances, or would benefit from additional services they did not provide.

5.9.2   Opportunistic growth

Opportunistic growth may occur in addition to planned growth. SEs demonstrating this could be said to be behaving in a typically entrepreneurial manner, since opportunities largely stem from networking with other social enterprises, civil society organisations and funders and other stakeholders. An example of this is the social firm employing those with learning disabilities, which expanded its client base to provide employability training to the long-term unemployed, with contacts generated through civil society networking events.

Another social firm entrepreneur learned through his contacts that a charitably registered theatre company was looking for partners. He offered to merge one of his businesses with the theatre business, 'acquiring' a registered charity in the process, thereby enabling access to benefits and revenues which may otherwise not have been available.

5.9.3   Relationships with funders

For those with longer-term funding arrangements, and SLAs in particular, relationships with funders were highly important. Most in this position had strong relationships with key staff within local authorities, and in other funding bodies. While this was partly cultivated purely for business reasons, commissioners were also well placed to understand and have an overview of the sector and be able to support funded organisations in some capacity. However, relations with local authorities were not always smooth, particularly where responsibility for services is shared between the public sector and a small number of SEs. In this situation – which frequently stems from the historical way in which services have been organised, or from more recent changes to funding streams – SEs may become marginalised and need more effort to integrate themselves with the other deliverers or strategic partners.

5.9.4   Role of professional memberships and sector bodies

Sectoral and occupational membership bodies also provide opportunities for networking and generating business. These include opportunities notified through the membership organisation's dissemination activities (publications, e-mail alerts etc.), as well as simply talking to other individuals in a similar position, either face-to-face or contacted online through the organisation's contacts list. Industry affiliations, kitemarks and seals of approval could also confer recognition benefits among consumers, such as the beverage manufacturer's CAMRA and Made in Cumbria affiliations.

5.9.5   Social Enterprise Networks

Networks exclusively made up of SEs were used by several organisations, although the perceived value in terms of generating business was lower than the more tangible connections noted above. However, local or specialist VCSE networks were seen as being more useful in terms of generating business advice and support in a SE context, both in terms of signposting and in potentially developing a mentoring relationship. The larger SE networking bodies were seen as largely irrelevant by the smaller organisations in our sample

for networking purposes, although some of their publications and online information were regarded as being useful.

5.9.6   Networking for social objectives

The fair-trade organisation noted that despite participation in numerous business fora at different levels (Chamber of Commerce, CBI etc) they believed their participation with other fair trade organisations to be most valuable with regard to their focus on jointly making progress on social and economic objectives. While other organisations mentioned their peers, it was generally in the context of business benefits, with a smaller number also seeking to source advice on ways to improve social outcomes (i.e. best practice or signposting to organisations which can provide it). In particular, a number of smaller organisations had good relations with personnel at their local 'market leader', whom they could contact for advice if necessary (while stopping short of a full-blown mentoring relationship). Other larger organisations regarded this as part of their 'duty' to the sector to provide such a service.

5.9.7   Summary of relationships

Most relationships in smaller organisations were within local authority or regional boundaries. These were generally regarded as the most useful, as they coincided with the local markets served by many SEs. Longer-term relationships tended to be founded on the pragmatic basis of demonstrable value. Interviewees were open to new opportunities which could credibly deliver tangible benefits, since attendance at meetings posed a high opportunity cost. However, working at a local level means that the sharing of best practice may only be as good as the best practitioner in the locality.

Larger SEs tended to work on a national and international scale, often finding local contacts of less value. In local networks, they were often the 'senior' organisation, leading to a one-way relationship, with the large enterprise giving more than they received.

Formal consortia and mergers were much discussed, but for the most part had not (yet) occurred. SEs face similar concerns to SMEs in terms of business transfer and succession: few have prior experience of succession, and the importance of transferring the social mission as well as the trading business leads to complications, both legal and ethical.

6 SE business support needs: how they are – or could be - met

This section looks at where SEs look for and find effective business support: the extent to which the sector has the internal capability and capacity to support itself, individually or as part of a group; plus when and why they need external expertise. This chapter includes a discussion of support gaps, where neither internal nor external support to business problems is being accessed successfully. Having identified these gaps across the course of the study, a range of potential solutions were suggested to the SEs during the final interviews, asking them to assess which would be most helpful and likely to have 'traction' with the sector.

When it comes to seeking business support many SEs in our study laid stress upon the differences between their operating models and those of mainstream SMEs, and the belief that external consultants did not understand those differences and therefore could not be helpful. In addition, the financial and management resources SEs have available to engage external support were typically very limited. The combination of perceptions of external support, combined with scarce resources, means that when issues arise SEs often privilege internal solutions which, by their very nature, are inevitably limited.

6.1 Management and leadership

As discussed in Chapter 5, the managers of sample SEs had undertaken relatively little training while in post; the key reported barrier being cost. Training – if undertaken – was piecemeal and serendipitous, usually on the basis of what was available locally and cheaply and that managers had heard about via networks, rather than part of a development plan to grow management capacity.

Most SEs agreed that in specific areas training or professional development would be useful if it was (a) free or low cost; (b) readily accessible; and (c) the benefits of increased capability outweighed the opportunity costs of lost management time. Taken together, this suggests online training accompanied by mentoring support would be most appropriate and cost effective.

'External' managers (i.e. not part of an original founding team) were recruited largely because of their ability to fill gaps in the skillsets of SEs, most commonly at a particular time of need and/or to fulfil certain tasks. Candidates where generally drawn from business management in general, preferably with at least some experience in social enterprise or civil society.   As revealed by a number of the sample SEs (the counselling service, the manufacturer in Case Study 12, in the outsourcing of HR functions or the handling of redundancies (Chapter 5)), despite bringing in external skills and experience for specific reasons, some SEs still felt some discomfort with ensuing arrangements and cultural adjustments were needed on both sides.

6.2 Strategy and planning

Support in business planning is likely to be more effective when focused on improving SEs' own planning skills, rather than funding consultants to write business plans.

Business plans were usually written in-house, sometimes with input from board members or trustees. Plans written with support from external consultants were uncommon. The very

act of writing a business plan can be instrumental in its being valued and properly used, promoting reflection on the organisation's goals, strengths and weaknesses. Such ownership can increase the potential for the plan being used to drive change, as opposed to a more reactive document produced in response to a consultant-driven diagnostic, or for a secondary or single purpose (e.g. to support a funding application).

6.3 Governance

Recruitment of board members - especially in smaller organisations - tends to be conducted through the existing board and senior management teams' personal networks. This inherently limits the pool of potential recruits and is more likely to adversely affect SEs in rural locations and deprived areas. The training of board members tends to be undertaken in-house, with information cascaded from the manager on relevant topics (usually according to the manager's judgment). The limited pool of candidates and patchy training provision offer little to challenge the inherent conservatism of some boards and their wariness of enterprising activities.

Board members expressed an appetite for training and it could help them to perform their oversight duties more effectively and comprehensively, thereby helping to avoid financial mismanagement and fraud, as highlighted in Chapter 4, Section 4.8.2.

Expert training delivered directly to board members has proved very useful to the small number of SEs which used it and could have wider beneficial effects.

6.4 Raising finance

6.4.1 Levels of demand and levels of success
Survey data shows evidence of unmet demand for external finance from institutional funders. Access to finance was the single largest barrier reported by respondents to SoSE 2011: 44 per cent indicated that availability and affordability of finance was an obstacle.

SoSE 2011 (Fightback Britain) presents findings noting the application and success rates for different types of finance:

- The two most prevalent types of finance sought were development grants (sought by 61 per cent of SEs, 61 per cent of which were successful) and loans (sought by 25 per cent, of which 56 per cent were successful).

- Average success rate for all types of finance application is 53 per cent (although some of those failing may have succeeded to obtain finance through a different route).

- 16 per cent of respondents did not manage to raise any of the finance they sought.

- Others did not receive the full amount applied for: the median application was for £100,000, compared with a median of £60,000 obtained.

- Access to external (non-grant) finance is one of the main barriers to growth among SEs. Awareness of finance products among our sample organisations was varied, ranging from a comprehensive grasp among larger organisations and a minority of the smaller SEs, to relatively poor levels of knowledge - particularly of non-bank products - among many of the smaller organisations.

- The range of financial need was also diverse. Some required little external funding, having large reserves and owning their own premises.

Case Study 17: Funding a mixed mission agenda

In common with many social enterprises, the management consultancy in the Midlands has a culture change/lobbying agenda alongside that of its service delivery role. Indeed, projects relating to the supply of services have often grown out of the demonstration of need, based on the SE's research, extensive lobbying and consultation with government. The SE also has a behaviour change agenda, to increase support for its direct project activities, and expand upon the dynamic arising out of them – often in ways consistent with government's Big Society objectives.

Securing funding to support the organisation's activities involves a substantial proportion of resources on an ongoing basis, in order to support core development work, which includes ensuring that the capacity of the organisation (skills etc.), is developed and maintained for the long-term. How to fund core activities on which action is subsequently based, is a key concern for the SE (communications, policy consultations, and research), while finding support for actual projects (activity) is less difficult. There is persistent conflict between time and resources spent on advocacy and policy versus those spent on the delivery of services. The issue of funding core activity is common to a number of SEs with an infrastructural role, as well as one of front-line delivery. Projects are visible and a more 'attractive' or sympathetic proposition, research can be seen as bureaucratic, the organisation taking funds for itself. Pricing such activities into bids for projects could make campaigning organisations uncompetitive. Spreading the costs amongst a number of CSOs, in order to share research and inform their activities, also presents difficulties in a sector strapped for resources.

6.4.2   Loan finance

For many of the sample, results of searches for loan finance were partly determined by restrictions on the ways in which they could raise funds (e.g. constitution prohibiting loans or issuing shares), or a general preference towards 'living within their means', so as not to put the SE or its service to vulnerable groups at risk. The majority did not use alternative (non-debt, non-equity) methods, with most simply making use of standard products from a high street or civil society specialist bank.

None of the sample actively used crowdsourced finance (e.g. Buzzbnk)[20], community shares or social investment bonds, and knowledge of these relatively new finance options was limited.

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[20] Crowdsourced funding raises funds directly from the public. Potential supporters can view different causes to support through an electronic portal. Each funding opportunity indicates how money will be

For those which can borrow, awareness of financial products mainly centred on loans or overdrafts from high street banks or functionally similar civil society equivalents (Charity Bank, CAF Bank etc.). There was little obvious knowledge of CDFIs, factoring or other, alternative sources of finance.

Among those which were aware, there were reservations about how widespread for instance, the applicability of social investment bonds could be, due to the potentially high exposure to risk and the temptation for the lender to cherry-pick easier-to-help clients. Only one organisation had raised capital by issuing shares to supporters – and was successful in raising funds, While in fact external to the organisation, the offer was principally aimed at the supporter and stakeholder base, and therefore could effectively be regarded as part of the extended organisation. Nevertheless it involved a potential loss of control for the SE; in future they would be more likely to issue a time-limited social bond. This would allow supporters to contribute, while keeping control within the organisation.

Constructive assistance in the area of external finance would be information on the range of finance options, preferably using case studies to demonstrate benefits and drawbacks.

6.4.3   Finding grants

In terms of grants, the majority of our sample already used online grant-finding tools, including a large proportion which made use of Funding Central (funded by OCS). These cover all categories of available grants and, in some cases, other forms of funding and/or procurement contracts. It is also possible to specify the type of organisation requesting information and the purpose for the funding, to further refine results.

Sample SEs were largely satisfied with the results, although they felt that the filtering systems did not discriminate sufficiently. The tools tended to produce too many results, requiring time spent sifting in order to find the relevant ones.

There is also considerable overlap between various tools – none was fully comprehensive, and for the most part, results from different search engines were similar. The main negative was the cost of subscriptions, without any certainty about whether enough grants which fit the relevant criteria were available to make costs worthwhile. Although some tools return a count of the number of grants which fit criteria for free, the organisation still had to pay a subscription to access detailed information. The lack of discrimination in filtering meant it was difficult to know how many 'hits' would actually turn out to be relevant.

One SE had successfully obtained finance from the Big Lottery for a large scale construction project (allowing business diversification). However, others indicated that they had been discouraged from pursuing Lottery funding due to the high opportunity cost involved in putting bids together – two at least had made failed bids and found the process very resource-intensive. The forms are complex, and funding is only available for specific purposes, to the extent that one noted they felt compelled to attend to a training course on applying to have any chance of being successful. This same point applies more generally to funding applications, with many SEs complaining about the length of time needed to complete forms.

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spent and the social impact. Investors can receive goods and services and other in-kind support, rather than a purely financial interest bearing investment.

6.5 Key functional skills

6.5.1 Management accounting

Simple accounts functions were sometimes outsourced, but the majority undertook these in-house. In most cases this was sufficient, but some organisations had incurred bad debt at certain points, or encountered other financial difficulties, which may have been averted with closer scrutiny. In such instances, outside scrutiny may have proved useful, perhaps by developing a closer relationship with accountants or auditors and/or better training for board members.

6.5.2 Human resources

Only a minority of organisations – mostly at the smaller end - outsourced (elements of) human resource management. Otherwise, HR was part of the responsibilities of a senior manager in micro organisations and a dedicated HR manager (usually externally recruited) in medium or large organisations.

In terms of staff development, most organisations undertook internal on-the-job training for staff below management level, with external training less common due to the cost implications. In smaller organisations this tended to be ad hoc, delivered as and when required by the situation. Larger enterprises usually had a training plan to identify skill gaps and appropriate responses.

ACAS received a number of favourable mentions in terms of advice supplied for specific HR cases, a business diagnostic and for planning purposes for pensions etc. SEs reported the help ACAS provided to be appropriate, constructive and worthwhile – as well as being easily accessible and offering follow-up.

6.5.3 Sales and marketing

Those organisations with strengths in marketing (relatively recently established, 'purpose-built' SEs e.g. restaurant and large scale visitor attraction) stood out, proficiency and success in this area reflected in other aspects of their business.

The best marketing was characterised as fundamental to an organisation, taking place in-house and intrinsic to everything they do. With these SEs there was a determination to get the message across about what they do and how, establishing stronger relationships with their customers and other audiences.

Sales and marketing activity was generally conducted in-house for cost reasons. Many organisations were only partially self-sufficient. Indeed, this was the area where organisations most readily admitted that they lacked the skills and expertise, as well as the resources to pay for help.

Marketing was seen as a highly specific skill but low in the pecking order when finances were tight. Many lacked the necessary resources to deliver a comprehensive marketing strategy (or did not choose to allocate them in this way), preferring cheaper solutions (e.g. use of social networking sites) which they could understand more easily and handle themselves. In several instances, websites, shopfronts, flyers and other similar customer-facing displays were tired and dated, requiring an overhaul (and, again, managers were aware of this). Interviewees stated that marketing solutions had to be sensitive to the

organisation's status as a SE, as well as the type of SE and its target audiences; on the whole they did not believe marketing support was capable of delivering such an approach.

Effectiveness at marketing polarised some SEs from the rest – they not only collected and analysed information, they published lots about themselves for a variety of audiences. This included explanations of how they operated, their objectives and what the triple bottom line meant – with practical and easily understandable examples of these principles in action. These documents were distinctive, very readable and accessible, showing where money came from, how it was used and whom it benefited – contributing significantly to building a customer base and loyalty. This was heavily influenced by the fact that a private sector marketing director had been marketing director of one SE, then CEO of another and instituted excellent practice in both.

Some SEs take CRM further, analysing their customer data thoroughly, obtained through websites, booking sites, visitor data and/or specific customers surveys, to build their customer base, target marketing and modify activities but this level of activity was relatively rare.

Generally SEs in the sample were aware of their weaknesses in sales and marketing but were more likely to prioritise other things. In part there seemed to be a lack of appreciation about the potential offered by improved marketing and customer information and the contribution it could make to the business and its sustainability.

6.5.4   Improving social outcomes
Many of the sample SEs would benefit from improved access to best practice information on collecting data on social outcomes and how to analyse that data to improve performance.

Social outcomes were generally recorded with input from external sources. Most used KPIs, with improvements recorded in quantitative terms. An upward movement in KPIs would be indicative of an improvement, most directly in terms of the numbers being helped; these were often demanded by funders and more qualitative indicators would not be given the same prominence, even though they may help to improve services.

The collation of case studies was common; though not used for analytical purposes, but to indicate depth of impact to funders and stakeholders. Qualitative improvement measures tended to be restricted to progress or the removal of barriers (distance-travelled etc.) for individual clients and as a means to track outcomes. There appeared to be relatively little measurement of whether services improved in how they delivered outcomes, compared with the wider range of measures of business performance – thereby limiting the information available to promote learning and development.

The academic and grey literature on SE support, and the support system itself, tend to focus on improvements to the business, rather than social outcomes. While more detailed measurement would be welcomed (not least by SEs themselves), the capture and analysis of relevant information is seen as time-consuming, costly and non-mandatory. Thus, while there was an appetite for social accounts, few in our sample (other than the most financially self-sufficient) managed to undertake such an exercise. With some this was also caused because of a lack of foresight (or good advice) when systems were installed (e.g. SE where closed EPOS system excluded possibility for customer data collection and analysis).

6.6   External support

SEs usually only look outside for solutions when the benefits are high in comparison to the direct and indirect/opportunity costs, or when highly specialised support is specifically required. They seek external advice and support in a predominantly reactive manner: because they lack the capacity or capability to overcome a barrier or problem, sometimes to develop the business, or because there are no internal substitutes.

Knowledge of publicly-funded business support is usually partial at best (with the obvious exception of the sectoral support organisations). Those SE managers who had been engaged by Business Link to deliver consultancy services to other SEs were better informed than most, but still had only a fragmentary overview of products and services – though this is little different to most SMEs.

Also as with mainstream SMEs, a minority held pejorative views about publicly-funded support in general, and Business Link in particular. However, some had never used Business Link at all or had not accessed it for some time. Interestingly across the study period five 'Partially self-sufficient' SEs in the sample reported the same levels of growth ambition (like the other SEs) but all contracted (unlike the others). This group also reported the least intensive use of external business support.

Recent users of Business Link were more satisfied with the general service – most of those attending seminars etc. found them relevant and of good quality.

Several reported that it took persistence to find an advisor who understood SE needs - someone they 'could do business with' – suggesting training needs amongst advisors in order to achieve consistency.

6.6.1   External consultants
There was some dissatisfaction with <u>consultants</u> used by our sample organisations. In general, managers had encountered difficulties in sourcing consultants who specialised in SEs. Indeed most 'generalists' and those coming from mainstream business backgrounds had struggled to understand the SE business model used, and their recommendations were frequently found to be inappropriate. This applied to consultants SEs had sourced themselves, and – in a small number of cases – to those who had been used as a condition of receiving finance, usually chosen from a shortlist.

Consultants providing a better service were generally sourced by word-of-mouth or personal experience, or were called in to provide a specialised, highly technical service. This applied to services such as MAS (Manufacturing Advisory Service used by one organisation), or assistance with particular ICT issues. Similarly, those consultants engaged to develop websites or e-commerce tools were generally highly rated. In these latter cases, any concerns tended to centre on meeting the high costs of such services, rather than complaints about the quality.

It should be noted that there may be issues because of a lack of experience of sourcing consultants on the part of SE managers, leading to difficulties in choosing and/or knowing how best to direct consultants, and to make the most of their recommendations. This is also not uncommon among SMEs.

One possible response is a list of 'social enterprise consultants', although this attracted relatively little support, and only a small minority indicated that they had used existing services (e.g. SETAS, available at www.setas.co.uk). It is difficult to overcome the preference for personal recommendations and the need for reassurance that the specific requirements of social enterprises will be met.

A system of 'quality assurance' would be helpful, although there was no consensus about how to achieve this nor which organisation should be responsible. Indeed, although SETAS provides the facility to rate particular consultants, only six out of the 350 providers listed have attracted any ratings. This suggests that word-of-mouth recommendations remain preferable to ratings on a website from unknown users. Some users preferred a hybrid solution, with users commenting on providers via a moderated online forum (or forums dedicated to specific issues), allowing for the possibility of more nuanced feedback and conversation. Several organisations were already users of these fora, which could provide both peer support and advice from experts – for example, the Cranfield Human Resources mailing list.

6.6.2   Recurrent support transactions

As is common among surveys of mainstream SMEs, SEs had strong trust relationships with intermediaries, such as their accountant and solicitor. For the most part, organisations sourced such intermediaries relatively easily. However, some commented that they needed a specialist accountant or lawyer, as generalists did not understand civil society organisations, while others desired intermediaries in sympathy with their social mission. For some, this had proven more difficult (particularly in rural areas), but not insurmountable. A lengthier search may also have been driven by cost concerns; some intermediary organisations with a social economy specialism offer a discount or a more comprehensive support package for SEs, compared to the services offered to the private sector.

To an extent the caution in selecting advisers is justified. Not all small accountancy or law practices will undertake CPD modules relating to CSOs, and mistakes or poor advice can prove costly and time-consuming.

Encouraging CPD by intermediaries in order to better understand the requirements of SEs would be beneficial to SEs and to the wider social economy, and allow law and accountancy professionals to service a growing market.

6.6.3   Dealing with regulations

Several organisations reported they had issues with consistency of responses to enquiries about regulations and – in some cases – with the lack of clarity of the actual regulations themselves. In particular, there was confusion (particularly in small and medium organisations with multiple income streams and methods of trading) about the circumstances in which VAT or corporation tax are payable. Several noted that they had received contradictory replies when they contacted the relevant helpline – 'on a different day, you get a different answer'. Others had faced large back tax bills after an error in their returns had been detected, although this may have been due to an error on the part of the business and/or their financial director or accountant.

In light of current news coverage and statements from the head of HMRC about problems with delays and unsatisfactory replies it seems this finding may be part of a bigger picture –

but delays and uncertainty may impact unevenly on organisations operating on low margins with very few reserves.

It is clear that there is some feeling amongst the sample SEs that some rules are not well-explained, and that SE-focused support would be helpful. This could include, for example, a specialist in finance for CSOs to answer queries or to hold occasional workshops or 'surgeries'. Interviewees could see the merits of a service that could rapidly tell them if no action was necessary in a given set of circumstances, thereby preventing unnecessary costs, or when pursuing a particular course might prevent problems in the future. Again, this would be orientated towards smaller enterprises, as larger concerns often had their own experts to call upon.

6.6.4 Business Link

Institutional support most commonly came from Business Link, usage and experience was quite widespread, so comments were often based on direct experience[21]. Business Link was seen as complicated in terms of access and some SEs admitted that they did not know or understand its support offer. Yet, despite this admitted ignorance, some SEs had made an assumption that B Link services were not for them – and would be unlikely therefore to seek or test out that support in the first place.

For SEs on Business Link mailing lists the offer was better understood (and received): "Business Link newsletter is very good for informing us about training opportunities". Most of the support received took the form of relatively light involvement e.g. sponsored seminars and some transactional help with business plans etc. The principal complaint was that these were too generic and not sufficiently attuned to SEs "the important thing is nurturing the person not the business, which Business Link does not do". Despite this there was some satisfaction with Business Link amongst those SEs which had used it, though no impending sense of loss at the withdrawal of its traditional services.

- Some SEs assume Business Link is 'not meant for them'
- Others (with experience) that its support is too generic and insufficiently SE-friendly
- Others (with experience) report the patchiness of advisor skills and the importance and lack of consistency in finding the right, well-informed one.
- Given the opportunity costs involved, many don't try, yet those who do report some positive experiences.

6.6.5 Smaller, specialist providers

A relatively small amount of support had been received from organisations exclusively targeting SEs. Such services tended to receive more favourable comments, although this may relate to the ability of these organisations to use appropriate language and present themselves differently, without the baggage of the Business Link brand. It was not clear that their services had had any greater impact.

Strictly voluntary sector providers were perhaps the least used among the sample as a whole, though this may reflect the composition of the sample, derived as it was from BIS sources, rather than being representative of the sector as a whole.

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[21] Business Link may have received undue attention from the sample because of the known connection to research sponsors.

Some expenditure on specialist services may be appropriate but fail to offer good value, set alongside the competing priorities of the SE. The SE which successfully defended a tribunal case was advised subsequently by the barrister involved that being 'right', though important to the organisation's sense of itself, was much more costly than just agreeing an early settlement. In future he strongly advised making an offer at the outset. Nevertheless, for an SE with a charitable, explicitly Christian mission, the very accusation of being unfair with its staff was horrifying and they felt obliged to defend themselves against the charge – though they have taken out insurance against any potential cases in the future.

6.6.6   Other support

Training For the most part, discretionary support is sought in an ad hoc fashion when a specific challenge or need arises. Management training, for example, is rarely part of a defined training plan, and sourced either to fill a particular gap, or the opportunity for developmental training at low cost is brought to the attention of the manager(s) through networks, publicity or mailshots.

External training for staff members below management level was more common. Vocational training was better understood and more frequently accessed than business support, and organisations were generally aware of sources of funding and potential courses (or knew where to ask). Many looked for cheaper or subsidised forms of training, but some paid full market rates, as the benefits were clear.

Finding new board members In searching for new board members the local CVS umbrella body is a natural resource for SEs, but opinions are mixed. One possibility is a consolidated matching service for trustees and civil society organisations, bringing together the variety of sources which currently list potential trustees.

Some SEs reported that support in locating a wider range of potential board members would be valuable.

6.7   Putting a value on business support

As discussed the study group used a variety of support across the twelve months, which may be grouped under five headings: (i) finance; (ii) human resources and training; (iii) business planning (iv) business sector specialists; (v) other support. In the following paragraphs comment is offered about the business impacts of these interventions, but the exercise is not robust or definitive with such a small sample, using qualitative methods and given the relatively short lead time.

Overall evaluation is further complicated by the fact that in some cases the support provided was part of a specific goal of planned organisational growth, whereas for others exactly the same type of support was only preserving the status quo – in other words differing expectations and different outcomes. The majority of services used by the SEs were free at source, although they often involved opportunity costs for the manager in sourcing and using the service.

6.7.1   Finance
The most common form of finance was grant support, in preference to loan finance. Examples of grant finance included the establishment of a new wood recycling CIC, as an adjunct to a SE in the study group, the financing of the construction of a new wing of a

museum and the construction of a cafe, event venue and educational facility, using Lottery funding. These new ventures all added value, helped to improve assets and were intended to create higher gross earnings in the medium term, but they needed more time to achieve (measurable) payback. Other studies do regularly show a return on such financial investments and financial support certainly presents one area where results could be tangible and more easily disaggregated.

6.7.2 Workforce & skills

A wide package of measures was deployed by our sample SEs in relation to the workforce and skills. Some had accessed subsidised salary support through schemes such as Future Jobs Fund. Formal external staff development had occurred across the twelve months of the study, the majority of which was quite specific and directed at improving staff's proficiency in their jobs.

Most of these employment-related measures were free at source, or partly subsidised. Many studies demonstrate returns from training for individual and employer and these returns would also be likely for SEs - although most SEs in the study group would find calculating such measures difficult and the time elapsed so far is insufficient for demonstrable gains to be evident.

6.7.3 Business planning

Many organisations were involved with bid writing across the period, with varied levels of success. Some procured services for bid writing as a commercial proposition, or on a no win no fee basis, others benefitted from collective bid-writing via a consortium.

Bidding as part of a consortium, the benefits included reduced or no opportunity costs in terms of time spent on the bid, whilst offering benefits if the contract was won.

6.7.4 Sector specialists

Business sector specialists were widely used by the study group for their particular expertise. Such support addressed practical matters in specific markets, rather than more generic business concerns, such as finance. Examples of this support came from the Tenants' Services Authority for a housing provider, the National Day Nurseries Association for a nursery and the Manufacturing Advisory Service. Some of these services were free, such as NDNA, but more often provided as a commercial proposition. In the future the NDNA will also be charging for providing support. One organisation praised specialist support from the Manufacturing Advisory Service, which provided a diagnostic of internal barriers and bottlenecks, and produces suggested solutions. However, this service is not applicable to the majority of our sample, which were not in a manufacturing-related sector.

This type of support might be directed towards improving services for customers, and ultimately have beneficial business effects, but gains are not easily attributable unless a specific problem has been solved, particularly in the short-term.

6.7.5 Miscellaneous

A range of miscellaneous support was also used, most transaction support, and often referencing the Business Link website. In addition to simple transactions, support included monitoring outcomes, mentoring and support with back office functions, such as IT and payroll. This miscellaneous category presents particular difficulties in measurement,

because much of the assistance is directed inwards, at processes within the organisation, rather than impacting on the bottom line.

6.8   The sector supporting itself

SEs are not passive receivers of support from external agencies but active support givers; to the broader social economy, and more specifically to other SEs. Inter-organisational support manifested in several ways. Most notable was the giving of time, peer mentoring and networking through infrastructure or sector bodies.

Four sample organisations provided contracted support on a fee basis, as part of their core activities. Many others offered informal support or (in a small number of cases) low cost consultancy services to other SEs, or as part of their promotion and wider dissemination of social or environmental aims. This practice reflects a fundamental view among these organisations that their social cause – or a more generalised social justice agenda – meant they would support others to develop, despite no direct benefit to themselves.

This was mostly authorised by an SE itself, rather than carried out in the individual's own time. However, many organisations facing cutbacks stated they would be less likely to offer the same degree of support in the future, though the wish to support others persisted.

Case Study 18: Time-giving

For many social enterprises altruism is endemic and important. The SE under consideration here, sees time-giving as a positive development for their beneficiaries and therefore, being generous as an organisation is an important part of staying true to their principles and setting an example. Employees give time without expecting payment – this is just 'giving' – and is supported by the company. Activity includes:

- *Work with international fair trade standards committee*
- *Chief Executive meets with European peer group twice annually*
- *Head of Communications is Vice Chair of Fairtrade foundation – 1/3 of employment contract*
- *Sharing best practice – publications (through an academic on the board and a PhD student)*

Not all support is related to the Fairtrade sector:

- *Strong contributor to local authority's Social Enterprise group*
- *Hosting a session of a Business Link-sponsored Social Enterprise programme*

Some of the opportunities have been sought by individuals and can rely on the support of the MD. Altogether 'donated' senior management time is valued at approximately £80,000.

6.8.1   Mentors

Given the strong desire for word of mouth recommendations and for support providers to be better informed about SEs, greater access to mentoring would be generally welcomed, especially for micro and small organisations. This would require a broader and deeper mentor pool, along with a trusted source for those lacking network connections (e.g. new SEs) to find appropriate mentors.

Several interviewees were willing to become mentors or mentees (or, indeed, both), but found it difficult to commit the time necessary to develop a mentoring relationship, preferring peer learning via network meetings. A combined gateway, promoted via a trusted source, to mentoring and networks, would be beneficial.

BIS-supported Horse's Mouth or Mentorsme are possibilities for finding/becoming mentors, though little known among our sample. Several managers signed up to become mentors after the research team raised awareness. Higher levels of targeted promotion for such sites could prove effective, and preferable to establishing new sites or new access routes.

6.8.2   Sharing skills and sharing staff

Personnel-sharing took place mainly where an organisation found themselves short-staffed at short notice and a local SE in their network stepped in to 'lend' an employee temporarily, even if only for a few hours a week.

General support and network building activity could be shared (and, on occasions, is) between management and trustees/directors, requiring a proactive and involved board.

This only occurred where networks are well-developed and robust and mainly among organisations in the same sector and where the temporary skill shortage was generic (e.g. basic administrative functions). Although none in the sample had done so to date, SEs were not averse to making such arrangements more permanent, as a way of cutting costs while avoiding redundancies.

Building support relationships – with peer networks, funders, sector bodies and CSO/SE networks, among others - was also seen as important. However, many organisations had little time to devote to networking, arguably leading to suboptimal levels and quality of relationships. Relationships tended to focus on pragmatic ends, concentrating on funders, where appropriate, and peer networks offering advice, support and business leads – 'known knowns' - and therefore tending to exclude possibilities for exchanging information that was not being actively sought.

A small number of SEs committed part of their surplus to benefit their local community or other, specified, charitable purposes, becoming grant-makers in their own right – albeit in a modest way.

6.9   Increasing the use of business support

Sub-optimal use and latent demand of external business support

To increase take-up, business support for SEs must strike a balance between (i) free or subsidised provision, for those most in need and not able to meet costs yet likely to benefit from high levels of additionality; and (ii) those able to pay, for which full market rates would

be appropriate. Most SEs were aware that it was increasingly unlikely they would obtain dedicated support without making a contribution towards costs. However, this is in keeping with the preference of many SEs for peer-based solutions – networking with other civil society organisations or entering into a mentoring relationship, for example.

If you don't know it's there or you don't know you need it - Many SEs in the sample lacked the appropriate management skills and/or relevant processes to identify business areas which would benefit from external support. There is also a lack of awareness of support available and a general reluctance, based on presumed costs and a lack of understanding of SEs.

6.9.1 Self-diagnostics and toolkits

Diagnostic toolkits provide a useful template for reflection and business development rather than a precision tool, especially given the range and idiosyncrasy of models used by SEs: 'It's a starting point that gets you away from a blank piece of paper, but it's not the end product and you'd expect to have to customise it yourself'.

Some form of diagnostic would be of use to individual SEs, to focus analysis and identify their business needs; then to signpost to appropriate support.

Online toolkits have already been used successfully by some of the study group, from a variety of sources (Business Link, private sector support agencies and specialist CSO toolkits). Diagnostics provided a solid foundation upon which to base strategic and operational improvements to the SEs across a number of business areas. One manager had designed her own, using skills from her previous job. Many small and micro organisations which had not used them could see merit in such resources being more readily available. Larger organisations believed that toolkits were less useful, as they already had the necessary systems and processes in place.

6.9.2 Support for planning and strategy

Support for planning and strategy formation would be of benefit to a large proportion of the SE sample. Many indicated this is an area in which they would appreciate support.

Other resources in a similar vein to diagnostic toolkits were suggested by SEs in the sample. For example, one suggested developing resource packs for prospective tendering organisations. This would contain background information and context relevant to the contract, such as the population of a district or the level of deprivation, for those not familiar with accessing official data. This would be particularly useful to small SEs lacking experience in such matters, and provide more effective access to procurement contracts.

Two sample SEs had already received subsidised or free support from consultants in writing their business plans. However, although the plan was thorough, the organisations felt that they did not have full ownership of the contents, thereby limiting the buy-in of the workforce. As noted earlier this may be because of the working methods of consultants and their lack of familiarity with the more consensual, socially-driven ethos of SEs.

Awareness-building and orientation for consultants and advisors could help improve sensitivity to the needs of SEs and consistency amongst support providers.

SE knowledge on the part of business advisors is reported to be patchy while consultants may have a limited timeframe and fail to allow enough time to understand the organisation and its differences from the mainstream. Without sufficient exposure they may not appreciate that there are any differences, let alone seek to discover what these may be. Often payment terms reward outputs – business plans etc. – but not time invested in getting to know the organisation and ensuring the plan is tailored and appropriate.

6.10 Broader, generalised support from the public sector

6.10.1 Adding weight to civil society status

There are considerable financial benefits to charitable status; for example, an exemption from taxation, redemption of gift aid and automatic relief on business rates. However, often those without charitable status (in our sample, mainly CICs and Industrial & Provident Societies) did not wish for similar concessions as they see themselves as operating a business. To operate in way that might compromise this was seen as damaging to the sustainability of the organisation.

Indeed some sample organisations were strongly resistant to the idea of concessions for SEs. They believed that the whole point was to operate differently and to do so successfully, not expecting or seeking special allowances. Among larger organisations, this was partly due to a wish to promote social enterprise as a viable business model. For example, the Fairtrade organisation, the restaurant and the environmental and educational organisation all wished to prove that fairer business practices can co-exist and flourish alongside a mainstream business model. However, this does not mean that they would not take concessions if offered; for example, business rate relief or preferential finance terms.

6.10.2 Social Enterprise branding

The development and national promotion of a <u>social enterprise brand</u> was proposed, with a view to educating the general public and the business community about the nature and value of social enterprises. Preferential treatment from consumers and in business-to-business relations would be welcomed. Any potential displacement of private sector work is regarded as an inevitable fact of the growth of social enterprise in those sectors. The hope is that a recognised standard (like the Fair Trade logo) would affect consumer behaviour by better informing purchasing decisions. Existing marks were often seen as not fit for purpose without additional promotion and education about social enterprises in general.

However, the main difficulty of 'levelling the playing field' across the whole social economy and devising a brand mark remains the lack of an <u>agreed definition of social enterprise</u>. Unless there are clear lines of demarcation and auditing processes, there is the risk that private sector companies could reap benefits without being genuine SEs. The current social enterprise mark, although seen as good in principle, was not regarded as a strict enough test, and lacked widespread credibility. One or two of the biggest and most successful SEs were willing to endorse the SE mark on behalf of the sector, in order to give it greater credibility in the hope that smaller organisations might benefit.

6.10.3 Public sector funding and procurement

Prompt and consistent <u>communication of public sector plans</u>, especially future funding arrangements, was high on the agenda of many SEs. This applied to local government budgets, and changing funding regimes such as personalised budgets. At the end of the

study period, most organisations had either just been informed, or had not yet been told the precise terms of any cuts which would apply, nor how long new contractual relationships were anticipated to last. Some local authorities had withheld issuing contracts until 'things become clearer' while also asking SEs to cut management fees, accept extended payment terms, while also asking the same organisations to continue to provide vital services for the most needy.

There were a number of cases of insufficient notice and insufficient information: one SE noted that for planning purposes, they 'need to know if [the funding period] is three months or two years'. Many organisations providing frontline services saw the balance of power resting with public sector funders whose announcements did not allow adequate time for planning, considered responses or (if necessary) redundancies – or how to reduce services to the most vulnerable as fairly as possible.

Our sample also noted how the <u>public procurement process</u> could be reformed to better assess bids from social enterprises – for example, taking more account of social returns – though this would, of course, require the SEs to be able to count and analyse social outcomes effectively and consistently – and proactively as good practice, in anticipation of making bids, rather than only when asked to by funders.

Other concerns were similar to those expressed by mainstream SMEs. Smaller organisations find the procurement process daunting, and it is difficult to dedicate sufficient resources to the task. In addition, in order to generate the capacity to deliver at the scale required by contracts necessitates consortia membership.

6.10.4 Public sector worker placements

The research team asked sample SEs whether they would be prepared to act as <u>placement hosts to public sector staff at risk of redundancy</u>. Such hosting could provide a means of helping public sector employees considering working in a VCSE, exposing them to a different working environment, as well as bringing skills into SEs and contributing to capacity.

Interest in this idea was very limited, even amongst larger organisations, and even if funded by the public sector. There was a perception that such staff would be inflexible and institutionalised, used to a 'department for everything' and unable to 'turn their hand to anything' and adapt to the varied requirements of smaller SEs.

One SE with experience of an RDA-funded scheme to provide temporary placements for managers in companies at risk indicated that the staff supplied via such a scheme were usually of poor quality, creating problems and impacting negatively on resources.

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Appendix 1   Telephone questionnaire

CONTACTS

1.   Contact details   _____

2.   Name   _____

3.   Position   _____

4.   Business Name   _____

INTRO

Good morning/afternoon/evening. My name is (INTERVIEWER NAME) from Durham University. We are conducting a study on behalf of the Department of Business, Innovation & Skills (BIS – FORMERLY BERR/DTI). The survey is a follow-up survey to the Social Enterprise Barometer Survey that you participated in recently and will help develop government policy relating to business support for social enterprises.

Would you be able to spare some time to help us with our study – it would take the form of a telephone interview that would last approximately 20 minutes?

   REASSURANCES – USE IF NECESSARY

➢ This survey is being conducted for the Department of Business Innovation & Skills and Cabinet Office with the aim of improving the types of advice and support that are available to social enterprises. Please be assured that the survey is completely confidential and that you and your business will not be identified in relation to the results of the survey

➢ If you would like to speak to someone at Durham University you can call Gordon Allinson on 0191 3343340

➢ If you would like to speak to someone at BIS you can call Dilip Shah on 0207 215 3979

- Continue   1
- Refused   2
- Hard appointment   3
- Soft appointment   4
- Dead/unobtainable number   5
- Other (SPECIFY)   6

N.B. If you operate across more than one site this questionnaire relates to <u>all sites</u>

1 Ownership and personal characteristics

5.   (Filter) In what way would you describe your business as a social enterprise?

_____

6.   How did the social enterprise originate?

Start as a social enterprise	Y/N
Emerge from a voluntary or community organisation	Y/N
Start as a private sector business	Y/N

7.   Were you personally involved in the establishment of the social enterprise?   Y/N

8.   What were your main motivations for founding this Social Enterprise?

_____

9.   Before your involvement with this social enterprise what was your previous job?

_____

10.   Thinking about your entire career had you previously worked for substantial periods (tick all)

In the private sector – large business	Y/N
In the private sector – small/medium business	Y/N
In the public sector	Y/N
In the charities/voluntary organisations sector	Y/N
In social enterprises	Y/N

11.   What is your highest level of qualifications (wait for answer and code or read list if unsure)

None	Y/N
GCSE/O'level equivalent	Y/N
A-level or equivalent	Y/N
Degree/HND	Y/N
Postgraduate	Y/N

2   Management and governance

12.   What types of management and governance does your organisation have?

Board of trustees (Directors)   Y/N

Executive Management Committee   Y/N

Non-Executive Management Committee   Y/N

Other (Please specify)   Y/N

_____

13.   Does the organisation belong to a group along with other companies/charities?

Not formally associated with any other entity   Y/N

A subsidiary of a larger entity   Y/N

On equal footing with other parts of group   Y/N

We are a parent with subsidiaries   Y/N

A separate legal entity associated with a charity   Y/N

Other (please specify   Y/N

_____

14.   How is the enterprise owned? (please expand)

I have sole equity ownership   Y/N

Other Directors have equity shares   Y/N

All staff own shares   Y/N

External ownership   Y/N

Other (please specify)

_____

No employees/directors own shares   Y/N

15.   Does management have a shortage of skills or expertise which has proven to be an obstacle to the success of your business?   Y/N

16.   What are these skill gaps?

Financial management skills   Y/N

Human resource management/development   Y/N

Operational Planning   Y/N

Capacity to seek external finance/fundraising   Y/N

Capability to develop new products or services   Y/N

Strategic decision making capabilities	Y/N
Marketing capability	Y/N
Cost management	Y/N
Investment readiness	Y/N
Spotting opportunities	Y/N
Creating teams	Y/N
Understanding risk	Y/N
Other (please specify)	Y/N

_____

3   Your Staff

17.   How many permanent <u>paid</u> staff do you have?   ☐

18.   How many temporary <u>paid</u> staff (on average during the year)?   ☐

19.   Are your staff also your beneficiaries?   Y/N
e.g. do you employ staff from groups disadvantaged in the labour market?

20.   How many volunteers do you have (on average during the year)?   ☐

21.   What roles do volunteers perform?

_____

In the next set of questions please include both paid employees and volunteers in your answers

22.   How many vacancies, if any, do you currently have in the organisation as whole? ☐

23.   In which specific occupations do you currently have vacancies at this establishment? [e.g. management, personal/customer services, skilled trades and other manual)

Management/professionals	Y/N
Intermediate	Y/N
Craft	Y/N
Lower level skills	Y/N

24.   Over the last 12 months have you had any problems in retaining <u>paid</u> staff?   Y/N

25.   If yes, what sort of staff

_____

26.   Do your staff have a shortage of skills or expertise which has proven to be an obstacle to the

success of your business?   Y/N

27. What proportion of your existing staff would you regard as fully proficient at their job?
%

28. (If <100%) Is the fact that some of your staff are not fully proficient causing this establishment to…?

Lose business or orders to competitors	Y/N
Delay developing new products or services,	Y/N
Have difficulties meeting quality standards	Y/N
Increase operating costs	Y/N
Have difficulties introducing new working practices	Y/N
Increase workload for other staff	Y/N
Fail to fully achieve its social objectives	Y/N
Outsource work	Y/N
Other (please specify)	Y/N

_____

29. Does your organisation have a training plan that specifies in advance the level and type of training your employees will need in the coming year?   Y/N

30. What proportion of <u>paid</u> staff have received <u>any</u> training in the last twelve months?   %

31. What proportion of <u>paid</u> staff received training leading to a recognised qualification in the last twelve months?   %

32. What proportion of <u>paid</u> staff received externally provided training in the last twelve months?
%

33. What proportion of <u>paid</u> staff received in-house training in the last twelve months?   %

34. What proportion of <u>volunteers</u> have received any training in the last twelve months?   %

4 Competition, Customers Beneficiaries and clients

35. What does your business do? (Record verbatim to classify sectors)

_____

36. What proportion of your sales are?

Local to the county	[ ]%
Local to the region	[ ]%

National		[ ]%
International		[ ]%
Online		[ ]%

37.   Over the last three years, has the broader market for your goods?

Expanded	Y/N
Contracted	Y/N
Stayed the same	Y/N
Don't know	Y/N

38.   Who are your main competitors?

_____

39.   To what extent are you competing against other social enterprises/CSV as opposed to the private sector?

Very little (<10% market)	Y/N
moderate competition (10-25%)	Y/N
substantial competition (25-50%)	Y/N
Majority is social enterprise (50%+)	Y/N

40.   Do you measure the impact/success of your business, in terms of the following?

a.	Profitability	Y/N
b.	Social	Y/N
c.	Environmental	Y/N

41.   What are your barriers to achieving your business objectives?

42.   Which is the main barrier?

	41	42
The economy	Y/N	Y/N
Competition in the market	Y/N	Y/N
Taxation, VAT, PAYE, National Insurance, business rates	Y/N	Y/N
Regulations	Y/N	Y/N
Cash flow	Y/N	Y/N
Recruiting staff	Y/N	Y/N
Shortage of skills generally	Y/N	Y/N
Obtaining finance	Y/N	Y/N
Availability/cost of suitable premises	Y/N	Y/N
Shortage of managerial skills/expertise	Y/N	Y/N
Other	Y/N	Y/N

_____

43.   And do you have internal expertise to face this challenge/ or will you seek external advice (if yes state type and source of advice)?

_____

5   Income

44.   What is your total income?   _____

45.   From what sources?

Commercial sales	%
Public sector service delivery contracts	%
Grants	%
Donations	%
Other (please specify)	%

46.   (If grants> 0%) Does your grant funding relate to specific activity/outputs or is it for general purposes

47.   Would your enterprise be able to survive if grant/donations were reduced to zero?

In the short-term(this year)	Y/N
In the medium term (next year)	Y/N
In the long-term (the foreseeable future)	Y/N

48.   Do you have long-term contracts or grants which <u>guarantee</u> at least some of your income to your organisation until:

(a) the end of the current financial year?	Y/N
(b) the next financial year?	Y/N
(c) beyond the next financial year	Y/N

6   BUSINESS PLANNING AND BUSINESS SUPPORT

49.   What are your organizational/business goals? **(READ/TICK ALL) and**

50.   (if Yes) what priority are these for your organisation? (1=very low priority, 5=critical)

Work with more beneficiaries	Y/N	1-5
Work more intensively with beneficiaries	Y/N	1-5
Increase sales turnover	Y/N	1-5
Increase your earned income	Y/N	1-5

Increase your grant/donated income	Y/N	1-5
Increase profitability	Y/N	1-5
Improve business sustainability	Y/N	1-5
Expand into new territories	Y/N	1-5
Enter new markets	Y/N	1-5
Change products/innovate	Y/N	1-5
Other (please specify)	Y/N	1-5

_____

51.   Does your organisation have a business plan that specifies the objectives for the coming year?   Yes/No

52.   Have you consulted any other organisations for advice, support or guidance about your business in the last two years? Please exclude any short, informal conversations or discussions   Yes/no

53.   Where have you received this business support from?

54.   How would you rate your satisfaction of this support (1= very poor, 5= excellent)

Enterprise Agency	Y/N	1-5
Local authority	Y/N	1-5
Business Link	Y/N	1-5
Bank	Y/N	1-5
Accountant	Y/N	1-5
Solicitor	Y/N	1-5
Trade or business association	Y/N	1-5
Consultant	Y/N	1-5
Social enterprise specialist support	Y/N	1-5
Don't know	Y/N	
Other (please specify)	Y/N	1-5

_____

55.   What was the nature of the advice or support you received in the last two years? (do not read out, multicode)

Factual information	1
Basic advice	2
An in-depth discussion	3
Long-term or intensive assistance	4
Training/courses	5
Peer support/mentoring	6
Or something else (SPECIFY)	7
Don't know	X

_____

56.   Are you aware of having received any business support specifically branding itself as for social enterprises?   Y/N

57.   Who provided this support?

_____

58.   What was this for?

_____

59.   Do you perceive there to be gaps in the type and availability of business support for your social enterprise?   Y/N

60.   What are these gaps?

_____

61.   Do you consult with beneficiaries/clients in the design and delivery of activities?   Y/N

CLOSE

Thank you for your help with this survey.

As we mentioned this survey is on behalf of the Cabinet Office and the Department for Business, Innovation and Skills.

As a follow-up to this survey government would like to know more about the actual business challenges faced by social enterprises and how they resolve these in their everyday operation. To do this they have asked us to conduct more in depth action research with social enterprises. Action research tries to ensure that research subjects are properly involved with the research and fosters a working relationship between researcher and researched. It would allow the government to have a firm grounding on which to plan policy, based on the real and emerging issues for social enterprises.

This will involve site visits by the research team to meet with you and your staff. This will involve a total of five site visits over a period of 12 months.

62.   Would you be interested in helping with this research?   Y/N

63.   Finally, would it be possible for BIS to link your responses to other information that you have provided previously to the Government. By this data linkage, we can reduce the burden of our surveys on your business and can improve the evidence that we use. We will never release information that identifies any individual business and your survey responses remain strictly confidential. Do you give your consent for us to do this?

Yes	1
No	2

Appendix 2   Participating Social Enterprises

Business type	Region	Employee sizeband	Turnover sizeband
Sports activities	South West	50-249	£1-5m
Social care	West Midlands	50-249	£500-999k
Social care	London	10-49	£250-499k
Residential care	East Midlands	<10	£250-499k
Membership organisation	Yorkshire and the Humber	<10	<100k
Nursery education	South East	10-49	£1-5m
Social care	North West	10-49	£250-499k
Social landlord	North East	10-49	£500-999k
Visitor attraction	North West	<10	<100k
Nursery education	London	10-49	£500-999k
Membership organisation	North East	<10	£100-250k
Manufacturer	North East	<10	<100k
Social care	West Midlands	50-249	£1-5m
Management consultancy	South East	10-49	£1-5m
Publisher/design/consultancy	London	<10	£100-250k
Management consultancy	Yorkshire and the Humber	<10	£500-999k
Management consultancy	South East	<10	<100k
Catering/food processing*	Yorkshire and the Humber	10-49	£500-999k
Leisure and training	North East	<10	£100-250k
Food wholesaler	North East	50-249	>5m
Business support service	Yorkshire and the Humber	50-249	£1-5m
Adult education	North East	10-49	£250-499k
Manufacture of beverages	North West	<10	£250-499k
Food retailer	East Of England	10-49	£500-999k
Furniture retailer	North West	10-49	£250-499k
Home improvement agency	East of England	<10	£100-250k
Publisher	West Midlands	<10	£250-499k
Counselling service	South West	10-49	£250-499k
Furniture retailer	South West	<10	<100k
Furniture retailer	South East	<10	£100-250k
Visitor attraction	South West	>250	>5m
Restaurant	South West	10-49	£1-5m

* One of the interviewees would be best described as a social entrepreneur and started a new venture in the twelve months; the interviews spanned both ventures.