Briefing Paper 15

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

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Rationale

Social enterprise (SE) has gained considerable interest in recent years both in the UK and internationally despite the widely recognised lack of agreement as to what exactly a social enterprise is, what it does and/or represents and how it can be best promoted and supported (Borzaga and Defourny, 2001; Bridge et al, 2009; Nicholls, 2006; Peattie and Morley, 2008). This paper focuses on the place of the social enterprise (broadly defined as 'business that trade for social purposes') within the UK third sector, and where the social enterprise entity has been positioned since 2006. The paper acknowledges that the relationship between social enterprise and the third sector is not an easy one to the extent that some commentators do not consider social enterprises as a part of the third sector (TS).

Introduction

One of the reasons that inspired the topic for this paper was that, while looking for publications relating to SE in academic journals associated with VCOs and TS studies, the author was surprised by how little interest in the term there seems to be. Between January 2000 and June 2009 (when this search was conducted) only two articles which use the 'social enterprise' term in the title were published in *'Voluntas: International Journal of Voluntary and Non Profit Organisations'* (Lindsay and Hems, 2004, vol 15:3; and Kerlin, 2006, vol 17:3) (plus one book review of a book which title comprises the SE term) and none in the *'Non profit and Voluntary Sector Quarterly'* – there were two book reviews to report here though. This

contrasts with the growing interest in the term observed in academic journals specialising in Business and Management, Economic Geography and Public Sector and Policy studies.

This somehow suggests that social enterprises are seen as *'outsiders'* to the third sector and that this view is deeply rooted among scholars concerned with the non-profit, community based, voluntary and third sectors. In particular when considering the number of articles on earned income, trading, commercial or social enterprising types of activities in these journals which just are not called (or are related to) 'social enterprise', even though the National Council for Voluntary Organisations suggests that *'social enterprise is, in fact, the primary source of income for many types of civil society organisations* (NCVO, 2009:4). It has also been argued that there is increasing evidence of a transition *'from third sector to social enterprise'* which is taking place in several Western European countries (Defourny, 2001) and that social enterprises seems to be blurring the boundaries between non-profit and for-profit activity (Dart, 2004). Not surprisingly, while these developments have been endorsed by the New Labour government (Carmel and Harlock, 2008; Kendall, 2009), they have also generated concern among some voluntary and third sector stakeholders as social enterprises are portrayed as representing business-like values which are in opposition to volunteering and charitable values and philosophies (Eikenberry and Kluver, 2004; Carmel and Harlock, 2008; Kendall, 2009).

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

Locating social enterprise within the UK third sector

The third sector construct is intimately linked to the New Labour Government. Since its early days New Labour supported and promoted the 'voluntary and community sector' (VCS) as it was seen as embodying some key values embraced by New Labour which contributed towards developing an alternative socio-political philosophy to socialism and neo-liberal market economy. However, it was not until the 2005 HM Treasury discussion paper that the 'third sector' term replaced the VCS as the preferred official nomenclature (HM Treasury, 2005). According to Carmel and Harlock (2008), this document provided a clearing house for the articulation of a single, recognisable and inclusive terrain which accommodated within it a *'range of ideological socio-cultural 'types' of third sector organisations'* (Kendall, 2009:6), some of which were not included in the former definition of voluntary and community sector, notably co-operatives, mutuals and social enterprises. Social enterprises, up until that point, were *'institutionally dealt with as businesses, and part of the market, rather than the third sector'* (Carmel and Harlock, 2008:160), more precisely within the Social Enterprise Unit at the DTI (see DTI 'Social Enterprise: A strategy for success', 2002). The 'Third Sector' became thus an integral part of

the dominant discourse, in particular for the role the sector and social enterprises could play, in service provision (notably through 'partnership' with the public sector), to assist in public service reforms and to create a competitive market of service delivery providers (Cabinet Office, 2006 a, b).

Overall, it could be argued that the institutionalisation of the third sector represented an attempt to engage the whole sector in 'a political project' which was forwarded by powerful government Departments (e.g. HM Treasury and Cabinet Office; Home Office) but could also be associated to leading third sector bodies and prominent voices within the social enterprise movement (Carmel and Harlock, 2008). It could also be argued that the policy relocation of social enterprises from the sphere of the major business department to the Cabinet Office and the Office of the Third Sector (OTS) constituted a highly political-strategic move whose purpose ultimately was to promote the 'business model' within the voluntary, non-statutory and third sectors through an 'insider', which was seen as a *'panacea'* to fulfil the third sector social mission; or, in other words, to solve endemic financial problems faced by 'traditional' voluntary and third sector organisations derived from their dependency on grants, subsidies and donations. The policy cure was seen as promoting a strong enterprising and business culture which could lead to efficiency, financial sustainability, accountability and so on.

The problem is that this move toward the social enterprise 'business model' has proved highly controversial, and difficult to accept by the voluntary and third sector movement, particularly at a grass roots level.

Social enterprise: in or out of the third sector?

A first proposition is that although the trend towards increased earned income has been welcomed by key third sector and social enterprise bodies, it may further stretch the already existing tensions within third sector organisations and social enterprises themselves e.g. the marketisation of the third sector and the tensions between the 'business model' (and its economic imperatives) and 'the social' part of social enterprise social mission. Arthur *et al* (2006:2) in this sense observe that, in the UK,

'[t]he position that has been legitimised is one where the tension between social and enterprise aims is not just one that has to be managed, but has moved toward one that if the business activities are a success in the market it will follow that the social aims will in essence take care of themselves'. Hence one of the key areas for policy intervention should be aimed at controlling the appearance of negative effects of the trend towards greater trading and, if they appear, to manage and contain the potential conflicts that generated. If social enterprise is to stay under the umbrella of the OTS, mechanisms should be set up in order to monitor and control 'bogus' social enterprises that may be using the social enterprise logo (and legislation) in order to maximise individual gains. The presumption here is that the OTS is better placed than the business departments to exert this type of control on social enterprises.

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

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

One hypothetical scenario which may help to avoid this conflicting situation is that new markets for service delivery and contracts open in the public sector – and so it turns into a non- zero-sum game. The scope for this is however very limited and it will probably mean additional short-cuts in welfare provision and further transfer of responsibilities to the third sector which are essentially state responsibilities (Hudson, 2005, 2009; Amin, 2009). 'Social enterprised' as opposed to 'privatised' public services becomes ideologically more appealing for many and politically less controversial and/or confrontational (e.g. in the eye of trade unions). However, the morality of a state-led development like this is not only highly

questionable but is also unacceptable considering the existing and growing bulk of unsolved social needs and problems particularly in the current context of economic crisis.

Background

This paper is part of a programme of work on social enterprise being carried out at Middlesex University as part of the Third Sector Research Centre.