

Third Sector Research Centre

Working Paper 114

## **Social innovation, co-operation and competition: inter-organisational relations for social enterprises in the delivery of public services**

This paper can also be found as a book chapter in Nicholls, A and Murdock, A (2012) *Social Innovation*, Palgrave MacMillan.

<http://www.palgrave.com/products/title.aspx?pid=477247>

Fergus Lyon

November 2013

## Abstract

There is much rhetoric concerning the need for collaboration and partnership both from policy makers and those within the sector who see the social enterprise model as being more collaborative than the private sector. However, there is limited understanding of the processes by which trust is built up and maintained in these contexts. The paper examines the relationships between commissioners and providers, users/beneficiaries/customers (vertical relationships) and relationships between providers (horizontal relationships). The paper will go beyond assumptions concerning how organisations are expected to behave, and will examine the economic and social institutional contexts in which their actions are embedded. In particular attention will be given to how organisations build relationships in 'quasi markets' and in an environment of emerging competition for the delivery of public services. These issues are explored by looking at the case of self-employment support provision in the UK.

## Acknowledgements

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. The support of the Economic and Social Research Council (ESRC), the Office of the Civil Society (OCS) and the Barrow Cadbury UK Trust is gratefully acknowledged. I am grateful for inputs at different stages from Ian Vickers, Pete Alcock, Leandro Sepulveda, David Smallbone and Alex Nicholls. All views expressed are those of the author.

# Contents

|  |           |
|--|-----------|
| <b>Introduction .....</b>  | <b>3</b>  |
| <b>Types of inter-organisational relationships .....</b>                 | <b>4</b>  |
| <b>The processes of building co-operation.....</b>                       | <b>5</b>  |
| <b>Morality, collaboration and competition .....</b>                     | <b>6</b>  |
| <b>Context of social enterprises and public services in the UK .....</b> | <b>7</b>  |
| <b>Case study results .....</b>  | <b>8</b>  |
| <b>Means of co-ordination.....</b>                                       | <b>9</b>  |
| <b>Building trust.....</b>   | <b>10</b> |
| <b>Discussion .....</b>  | <b>12</b> |
| <b>Conclusions.....</b>  | <b>14</b> |
| <b>References .....</b>  | <b>17</b> |

## Introduction

Social innovation is seen as a way of developing new approaches to addressing social problems. As in 'innovation', in other contexts, collaborative relations are often a factor in successful cases of social innovation, although little is known about how co-operation is built up and maintained. This paper sets out an argument for understanding how these inter-organisational relationships operate. This is necessary in order to go beyond the empty rhetoric of terms such as 'partnership', 'collaboration' and 'co-operation', and to understand how these complex forms of organising are built and maintained (Atkinson, 1999; Hastings, 1996). There has been much discussion on the need for collaboration (OTS, 2009) and co-operation between organisations. This has been given as a core value of some forms of social enterprises such as co-operatives (Spear, 2000), but very little work has been carried out on understanding the process of building these relationships. This paper examines the context of collaboration with the state for public services; reviews the literature on collaboration and social enterprise; and draws on the literature of inter-organisational relationships to present a framework for understanding how collaboration is built and maintained.

This paper will go beyond assumptions concerning how organisations are expected to behave, and will examine the constraints and barriers being faced by organisations and the economic and social institutional contexts in which their actions are embedded (Granovetter, 1985). In particular, attention will be given to how organisations build relationships in 'quasi markets' and in an environment of emerging competition for the delivery of public services (Le Grand and Bartlet, 1993). These may involve partnerships between commissioners and those delivering services (which can be termed vertical relationships) and also collaborations between providers of products and services (what can be termed horizontal relationships). For horizontal relationships, organisations may be both competing and collaborating. Some refer to this as 'co-opetition' (Nalebuff and Brandenburger, 1996), although there has not been any attention given to how this may be different for social enterprises compared to private sector businesses.

A broad definition of social enterprise is used here, as proposed by the UK government's *Social Enterprise: A Strategy for Success* document: 'A social enterprise is a business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profits for shareholders' (DTI, 2002). As mentioned elsewhere, this definition is kept deliberately open so as to be inclusive (Lyon and Sepulveda, 2009). This results in a huge diversity of organisations with different forms, different sizes, different origins (coming from individual social entrepreneurs, community activity, voluntary organisations and private sector or as public sector spin outs) and operating in different sectors.

The scope of this paper is limited to inter-organisational relationships and co-operation within these. It does not examine the issues of intra-organisational relations but recognises that there are important issues related to the development of trust there too (Mollering, 2006). The paper does not examine the impact of social enterprise and third sector organisations on trust or social capital in other parts of the economy (Putnam, 1993; Fukuyama, 1995), nor is it able to examine the extent to which users or customers trust social enterprises (Anheier and Kendall, 2002).

This paper makes a theoretical contribution to understanding the nature of social enterprises and civil society more broadly. In particular it sheds more light on the relationships between public and third sectors, demonstrating the overlapping nature of these spheres. While social enterprises are presented as a hybrid form of organisation, combining the financial imperative of the private sector with social aims, there is a need to examine different theories of how relationships develop outside of the purely private and public sector. This paper does not assume that effective partnerships will spontaneously emerge when needed but rather recognises that the social relations behind collaboration are contingent on and embedded in historical and spatial contexts (Granovetter, 1985; Amin et al., 2002).

The paper addresses three research objectives. First, it examines the types of inter-organisational relationships and details the motivations for building trust. Second, it explores the processes of building co-operation, looking in particular at issues of trust and power in inter-organisational relationships. Third, it examines issues of the moral economy and conflicting norms of behaviour that underpin the inter-organisational relationships and participation by social enterprises in competitive markets for public services. The conclusion identifies the theoretical and policy implications and identifies a future direction for research in this area.

## Types of inter-organisational relationships

While there has been considerable academic research on inter-firm relationships and how they can be managed (Huggins, 2010), there has been little on interpersonal relationships of social enterprises or not-for-profit organisations (Hardy et al., 2003). In the context of public service delivery, the need for closer relationships with commissioners is discussed in much policy documentation, with the recognition that social enterprises may not be sharing their experience and commissioners may not be using the knowledge of local areas held by social enterprises (IFF, 2007). In the UK there have been a range of programmes trying to encourage social enterprises, particularly smaller ones, to become more involved in procurement (Wilson, 2009). Similarly, there are programmes for commissioners to understand issues facing social enterprises and how to build relationships with the sector. Munoz and Tindsley (2008) point out the need to overcome barriers with respect to the attitude of procurement professionals although the government's Audit Commission found that the public sector commissioners were nervous of engaging too closely with those delivering services (Audit Commission, 2008).

The more horizontal relationships rely on linkages between more equal parties that are not hierarchical or market-based interactions (Hardy et al, 2003). This may be consortia to win contracts or even a move towards the merging of organisations. It may be less formalised with co-operation aimed at innovation through sharing knowledge and ideas (Westall, 2007), or to share contacts, referrals, or equipment. Such collaboration is one of the co-operative values set out by the co-operatives movement (ICA, 1994) although there has been limited research on how these forms of social enterprise implement this ideal, in practice when operating in a more competitive environment.

Finally, Amin et al. (2002) identify relationships with the private sector for absorbing trainees. Their study of four locations in the UK found that these relationships were strongest and worked best where the private sector and local economies were stronger and were less effective in places where there are fewer economic opportunities and less economic growth.

Dijkstra and Knottnerus (2004: 33) refer to the informal ties as the social bonding required by social enterprises that will support the 'structural bonding', with larger contracts relying on more formalised written agreements. Spear (2008) refers to the difference between soft and hard public service contracts:

Earlier adversarial, conflict-based 'hard' or tightly specified contracting models have sometimes given way to 'soft' relational contracting models that allow for more flexibility because a more trusting relationship has been developed. However, this may only be easy for smaller contracts, since larger contracts are subject to the full EU procurement regime. (Spear, 2008: 44)

Munoz and Tindsley (2008) found that there are relationships with the public sector that remain informal with a fear of losing a contract if the organisation asks to formalise the relationship.

## The processes of building co-operation

Much research on partnerships and co-operation describes the potential outcomes and the types of relationships but does not explore the actual processes by which trust is built up. This is partly due to assumptions running through much of social and economic theory that motivations and incentives will be adequate to drive this forward (Williamson, 1993). In this paper, it is argued that these factors are necessary but not enough on their own and there is a need to understand more about how and why co-operation occurs in one place and not another. A more nuanced understanding is required that takes into consideration context and how these linkages based on trust are embedded in existing social relations (Granovetter, 1985, 1994).

Trust can be defined as an expectation of others' behaviour (Gambetta, 1988: 217; Zucker, 1986: 54) with confidence based on personal relationships or knowledge that there are institutions that can ensure or enforce expected behaviour. Trust also requires an element of willingness to embrace vulnerability and expectation that the other party will act responsibly (see Mayer et al., 1995; Rousseau et al., 1998). Well-placed trust is based on active enquiry, often extended through questioning and listening over time, rather than on blind acceptance (O'Neill, 2002: 76). This may be a conscious action based on calculations of vulnerability, risks and rewards, or it may be more instinctive and based on habitual action (Lyon, 2006; Mollering, 2006).

Zucker (1986: 60–65) distinguishes three 'central modes of trust production' namely process based where trust is tied to past or expected exchange; characteristic based, where trust is tied to a person and their background; and institutionally based such as membership of associations, use of bureaucracy and legal institutions. Lyon (2006) also stresses the importance of building trust through working relationships, existing relationships and intermediaries who are known to each party. This latter group of actors plays key roles as bridge builders and boundary spanners (Williams, 2002) particularly where there is more of a cognitive distance between parties in terms of culture (ethnic,

professional etc). While these issues are rarely examined in research on social innovation, it is referred to in research on inter-organisational relationships internationally. Mawdsley et al. (2005: 77) stresses the importance for NGOs of building up trust through face-to-face interaction, while NCVO (2008) identifies recent research on international NGO relationships that also require this interaction.

Co-operation does not arise solely through the people wanting to act reciprocally. In each case there may be an element of being coerced into actions by the sanctions and controls of others. Much literature on the nature of trust now accepts that there is a 'duality of trust and control' with blurred boundaries and each assuming the existence of the other (Mollering, 2005; Reed, 2001). The issue of power in relationships involving social enterprises is much more noticeable in vertical relationships such as between commissioner/funder and those contacted. Craig et al. (2002) question the use of the term partnership when there are unequal power relations between local authorities and the third sector organisations. Munoz and Tindsley (2008) found that many social enterprises were delivering services for the public sector without a contract and not covering their full costs, but that they felt powerless to change this. Murdock (2007) similarly found that social enterprises were fearful of commissioners and not demanding 'full cost recovery', instead using charitable resources to cover the shortfall in income from the public sector. Curtis (2008) identified the powerful co-opting force of the state but also notes the forms of resistance shown by social enterprises with actors subverting the intended norms of commissioners in order to meet alternative social outcomes

## Morality, collaboration and competition

Underpinning both issues of trust and power in co-operation are the moral norms of behaviour that define what is deemed right or acceptable. There is a set of literature on generalised morality (Platteau, 1994a and b; Moore, 1994) related to co-operation. These include issues such as reciprocity, altruism, friendship, keeping agreements and market specific norms. The rhetoric of social enterprises and the voluntary and community sector stresses the sector specific norms, particularly in relation to co-operation with other parts of the sector (ICA, 1994; Williams, 2008). While altruism is an important factor underlying the third sector, there is a need to distinguish between altruism towards beneficiaries or clients and altruism towards other providers.

In addition there are norms related to the sanctions that can be used against other parties if they break agreements. These range from peer pressure, shaming and damaging personal reputations to exclusion from specific fora (Lyon and Porter, 2007). These sanctions can only be implemented if they are underpinned by a set of norms such as whether the sanction is considered fair, whether the community will exert peer pressure, or whether there is a professional community that is willing to exclude others.

Norms cannot be created at will. The production of norms is based on what Platteau (1994a: 536) refers to as 'historically-rooted cultural endowments', upon which norms of a more generalised morality can be encouraged when the right conditions arise. Portes and Sensenbrenner (1993: 1324–5) use the term 'bounded solidarity' which can lead to 'the emergence of principled group-oriented behaviour ... If sufficiently strong, this emergent sentiment will lead to the observance of norms of mutual support, appropriable [sic] by individuals as a resource in their own pursuits.' Research on the

emergence of new market systems found that while markets erode some social relationships and norms, new relationships are formed and new moral values can be generated by the market, its practices and incentives (Moore, 1994: 826).

## Context of social enterprises and public services in the UK

While social enterprises are considered to occupy the interstices between the state and market, many have become increasingly involved in public service delivery in the UK (Amin et al., 2002; NCVO, 2009). The UK public sector increasingly views social enterprises as a source of innovation and an effective model of delivery and is keen to increase the proportion of its public spending to these forms of organisation (Murdock, 2007; Munoz and Tindsley, 2008). This has also resulted in much of the social enterprise and voluntary sector becoming involved in contracts and trading. This situation is highly dynamic with a growth in public sector spending between 1997 and 2009, and a growing proportion of this spend going to competitive public service markets involving private and third sector organisations. Throughout the growth of this sector and more recent threats of reduction, there have been calls for greater partnerships and collaborative activities (OTS, 2009).

In the UK the reforms to the public sector, started by the Conservatives and continued by the New Labour Government since 1997, have resulted in a dramatic increase in the proportion of public spending being contracted out. In 2008, total public procurement for goods and services was £142bn or 25 per cent of total public expenditure, of this £79bn or 14 per cent of total spend is estimated to be on public services (HMT, 2008). The total spend on external procurement has grown from £31bn in 1996 with a levelling off since 2005. This growth has been part of the public sector reforms and the growth of 'quasi markets'. This involves a range of providers competing to deliver services and attempts to provide users of services with a choice (in terms of who provides and where).

There is no clear data for social enterprises as a whole but evidence from the NCVO (2009) on charities shows that £12bn of their income comes from statutory or public sector sources, of which almost £8bn is in contracts rather than grants, what NCVO refer to as social enterprise activity. This equates to 10 per cent of all public service procurement in England. This only covers those organisations registered as general charities, which are estimated to be one third of the total value of civil society in the UK that include housing associations, universities, co-operatives, Community Interest Companies and Companies Limited by Guarantee that are not also charities. The value of this source of funding is just less than the value of charities' voluntary income (donations etc.) (NCVO, 2009). However, the public service industry is still dominated by the private sector. There are considerable geographical differences, with 60 per cent of third sector organisations in the most deprived areas receiving statutory funding, compared to only 30 per cent in the least deprived areas (Clifford et al., 2010).

While many organisations have reported a shift in their income from grant to contract funding in the past (Craig et al., 2002), the overall growth of statutory funding has come from additional funding for contracts. It is not clear which part of the third sector is receiving this increased funding, but some evidence suggests that it is the larger organisations (Clifford et al., 2010), with some commentators calling for greater collaboration amongst smaller organisations in order to compete (Williams, 2008).

The public sector is attracted by the claims of innovative approaches of the social enterprises (Amin et al., 2002; Westall, 2009) including the development of new services and meeting a wide range of policy objectives related to social inclusion. In particular social enterprises have the potential to have multiple objectives related to economic, social and environmental outcomes with benefits for users, staff, local economies and local communities that allow the public sector to meet a number of goals (Lyon, 2009). Social enterprises are also perceived to be closer to communities and able to articulate the needs of people and deliver services to them. Anheier and Kendall (2002) refer to the need for the state to use non-profit enterprises as they are trusted intermediaries between supply and demand, particularly where they can draw on existing trust due to their links to the community (e.g. community or religious organisations).

However, there is limited evidence on which this is based and the state's interest has been based more on expectation than on hard evidence. The growth of the sector has been related to public sector interest and this is likely to continue with the social enterprise model at the heart of the ideology of the Conservatives/Liberal Democrats coalition (Conservative Party, 2008, 2010; Big Society Network, 2010).

With the growth of public service markets, social enterprises and the third sector more widely are put in challenging positions of needing to compete and collaborate. This presents contradictions in their relationships with other social enterprises, particularly when there has been an ethos of co-operation in the past. Little is known about the motivations of social enterprises and third sector organisations in competitive public service delivery contexts.

The following sections will examine the range of inter-organisational relationships found in the case study and examine how these relate to the context of delivery of public services in a competitive environment. In particular, the issue of how co-operation is built up is examined. The dearth of literature on this subject presents challenges for understanding how co-operation between organisations can be encouraged although frameworks can be drawn from research in the international development field and from research on trust building in the private sector. These can then present an agenda for future research that can inform public policies attempting to encourage collaborative relations in public service delivery.

## Case study results

These issues are examined by taking the case of public-sector funded support for the self-employed focusing on services for unemployed people. The funding of support is through a 'prime contractor' model with one social enterprise or private company having the contract delivered through subcontracting to other social enterprises.

These issues are illustrated with some case study material based on interviews with training and self-employment support providers in the UK. The nature of the research question demanded a qualitative approach with case study organisations. The use of multiple cases strengthened the findings and enabled the research to draw out common themes, conclusions and theoretical implications (Yin, 2003). In-depth interviews were carried out with 34 social enterprises, private providers and public sector providers. With the small sample sizes, the interviewees were selected

purposely to ensure a cross section of respondents from five contrasting locations (Durham, Staffordshire, Cornwall, Leicestershire and Norfolk) and offering different services. Semi-structured interviews were carried out face-to-face or by telephone. Based on the analysis of data and comparison of cases, key themes are drawn out (Yin, 2003). The data presented here has been anonymised due to the sensitive nature of some comments and the need for these organisations to continue on-going relationships.

There are various means available for start-up support providers to co-ordinate their support and also to learn from other providers. However, the ability to co-ordinate depends to a large extent on the relationships of trust that have been built between organisations. These relationships are built at both the organisational level and by individuals working within these organisations. The types of co-ordination can be divided between those that are 'horizontal', i.e. with complementary or competing organisations, and those that are 'vertical', i.e. subcontractors and suppliers. A division can also be made between those relationships that are formalised through written agreements and those that are informal.

## Means of co-ordination

In many cases the term 'partnership' is used to describe the relationship between support organisations. However, the use of the term partnership is vague and refers to a range of relationships that can be divided into six types with varying degrees of intensity of interaction:

- Close alliances/shared investment: for example the Chamber of Commerce and local authorities/regeneration bodies form organisations that win the contract to deliver Business Link franchised services. This was found in the Staffordshire case study.
- Collaborative delivery by consortia: for example a group of enterprise agencies in Staffordshire came together to get the contract to deliver support. Through this partnership one enterprise agency has secured funding for a community liaison officer to increase awareness of opportunities and encourage people to think about self-employment.
- Discussion groups for sharing information and social innovation: examples of these were found at the county, regional and national level where a diverse range of support providers, government departments and business representatives were brought together to share information on support needs, existing provision and new sources of funding. One member of a group referred to a concern at the risk of participating in these activities: 'We go to update each other ... I suppose they are competition and my boss is a bit worried ... but I go for curiosity, see [public sector] people who attend, and we can learn from each other, see how others do it, talk about the paperwork'.
- Joining other organisations' management boards: in three of the case study areas, key personnel were invited to sit on the management boards of local organisations. For example, advisors from one organisation were invited onto the funding panel of a

micro-finance organisation and the Head of Operation of a private sector contractor is on the local advisory boards of two other social enterprises that also deliver for them.

- Subcontracting relationships: many of the interviewees referred to the importance of relationships with funders or contractors as a means of co-ordinating support. These 'vertical relationships' may be in the form of subcontracting with bilateral relationships built up over time. These relationships were found to be strengthened when organisations were co-locating in the same building or had staff seconded to the subcontractors.
- Partnerships hosted by the funding body and involving all subcontracting bodies. Attendance at these 'partnerships' is compulsory and is a way in which the prime contractor organisations can ensure their subcontractors co-ordinate their delivery. However, this form of co-ordination is based on coercion rather than voluntary co-operation, with the result that participants felt that they were unlikely to continue the partnership unless they were forced.

## Building trust

While the formal means of co-ordination are important, successful partnerships and collaborative working is usually underpinned by personal relationships built up through informal interaction. Continued and reciprocal referrals are an important way of building relationships and trust both between organisations and between individuals in each of the organisations.

Previous experience of working together was also considered important by support providers. 'Churning' or the moving of staff from organisation to organisation helps to strengthen inter-organisational linkages, particularly when individuals have worked together on previous start-up support programmes. For example, enterprise agency staff in one area reported that they have exceptionally good relationships with the staff of the prime contractor with whom they have contracts. This is built up over many years because of the movement of staff from the (now superseded) Training and Enterprise Councils to the enterprise agencies. Seconded staff also help build up these links which can continue when people return to their original organisation. Another referred to the benefits of informal links with prime contractors which they have developed since co-locating and sharing offices.

Participation in formal fora also provides individuals with an opportunity to develop informal relationships with others. This demonstrates the long-term, and often serendipitous, impact of short-term collaborative activities. An interviewee from an enterprise agency stressed the importance of informal links with local authorities: 'We are strengthening our links with the Economic Development Units of District and Borough Councils. These tend to be informal links. We have regular briefing sessions, liaise with them and swap a lot of information'.

The ability of support organisations to work together is dependent on trust and the relationships between individuals in different organisations. The examples given in the previous section

demonstrate the importance of recognising the role of relationships in partnerships. Trust is drawn on when there is confidence in others despite the risk of them acting 'opportunistically'. In many cases there is competition between organisations (for funding as well as clients) offering support, and so co-operation results in an element of risk. For example support providers in one case study area felt that they were exposing themselves to risk when sharing information on funding sources or when admitting their own weaknesses in front of other organisations.

Trust is built up through experiences of working together and through having information on the reputation of others. The ability to acquire this information is shaped by the business support infrastructure in a locality and the types of opportunity for collaboration outlined above. Business support organisations were found to be more likely to start co-operating on relatively low risk activities such as information sharing and discussion groups before attempting more intensive forms of partnerships with greater implications if it fails (such as joint projects).

The issue of distrust was brought up by several interviewees, particularly with regard to conflicts following competitive bids for the specific contracts such as the franchise to deliver a support service. The extent of the distrust in one case study area was exacerbated by accusations that other providers were carrying out 'bias sign-posting' by referring their clients on to favoured organisations. Trust can also be built up by working through trusted intermediaries such as organisations attempting to remove themselves from delivery, enabling them to play a brokerage role. One organisation attempting to do this stated: 'In the past we would compete with other organisations for start-up business. Now we very much take a broker's role – we do not deliver ourselves. We see ourselves as having a co-ordinating role.' Where there are a large number of funding organisations this research found evidence that there was competition for the role of broker, as this position provides the organisation with an element of control over the whole business support infrastructure.

Some funding agencies encourage or require organisations to form consortia despite the lack of experience of working together or having trust based relationships. In such cases the consortia tend to be led by one party, with other 'partners' acting more as sub-contractors. In an extreme case of lack of co-ordination, one of the support providers in the Durham case study area found that they had been included as a partner in a bid without being aware of it: 'There is lots of duplication of bids by different bidders for funding. We have even found ourselves classed as partners on bid applications when we have known nothing about it.'

In the past 20 years competition amongst support organisations has been encouraged although the extent to which there is competition varies between areas depending on the history of start-up support funding. Competition can lead to innovation with organisations encouraged to find new ways of delivering services. This was observed in the case study areas, with the two areas with more competition having a more diverse range of support which differed to traditional forms of self-employment support.

Competition and its associated disruption can also contribute to a breakdown of trust, making it harder to bring people together to co-operate, when antagonism has built up due to competition. The case studies show that competition does not have to be antagonistic, with some enterprise agencies working closely together on some programmes while having an element of rivalry when not working

together. For example, the enterprise agencies in Staffordshire were found to be making applications for new forms of funding independently, as partners or as subcontractors for each other, while also delivering services together, as well as participating in a number of partnerships.

## Discussion

The terms 'collaboration' and 'co-operation' are often used in loose ways without clearly understanding the range of types of inter-organisational relationships. This discussion identifies a range of different characteristics of these relationships and presents frameworks for greater understanding. The type of relationships differs based on who is involved, how they operate, what activities are carried out and how often they are used.

The case study material shows how inter-organisational relationships can be divided between two types: first relationships with buyers, funders and subcontractors (what can be termed vertical relationships in a supply chain); and second, relationships with other service providers (what can be termed horizontal). These types of relationships can be both formal (based on contract) and informal (based more on word-of-mouth and a common understanding). In many cases formalised relationships required a level of informal relationship for starting consortia.

Types of inter-organisational relationship also vary depending on the depth and intensity of the relationship. Hardy et al. (2003: 337) assessed the intensity through the 'level of engagement' in terms of the frequency of meetings and the extent to which a range of people within each organisation were interacting with people in the partner organisation. They found that this varied from infrequent meetings between leaders to regular meetings of staff at all levels of each organisation. Similarly, this was found in the case studies with interaction through co-location helping to build trust.

However, this approach does not examine other elements of the relationships such as the degree of risk taken. In the private sector, the degree of risk can be assessed in financial terms – i.e. the amount of financial resources that could be lost if the collaboration fails. The hybrid nature of social enterprises (with both social and financial imperatives), makes assessing the risks more complex as social enterprises with a not for profit legal form do not entail financial risk for a particular individual but rather for a group or community. Furthermore, there are other risks in terms of damaging the reputation and relationship of the social enterprise (or individuals associated with it).

The case material also shows how trust can be built, especially with repeated informal ties and the movement of staff who take their ties from job to job. Trust is shown to be important and coming from existing ties, new working relationships and through the use of intermediaries known to all parties. As Nicholls (2008) points out, demonstrating legitimacy is an important element of building trust with a wide range of stakeholders, and as found in all parts of the economy, the role of audits and other forms of assessment can play a role in creating that perceived legitimacy and trust (Power, 2003).

The analysis of the case study material also shows forms of 'coercive co-operation' when power is exerted by commissioners in the form of requiring subcontractors or those organisations receiving funding to work together, similar to what Hastings (1996) refers to as 'financially driven partnerships'. The funding organisation also has the ability to shape the structure, operation and subjects for

discussion in these situations (Atkinson, 1999). In such cases, power relations can be very unequal with financial control exerted by one party.

This power is exerted through explicit threats of applying sanctions such as ending a contract or damaging the reputation of a subcontracting organisation. Power also may be less explicitly articulated through the role of surveillance (Lukes, 2005; Clegg et al., 2002). The case study material includes examples of the use of monitoring and evaluation as surveillance. Similarly Mawdsley et al. (2005: 77) present evidence of an increasingly bureaucratised and formalised system of monitoring in international NGOs that 'have taken the form of a micro-managing obsession with audits, targets and performance indicators'.

The breakdown of relationships and the build-up of distrust is identified in the cases, often in relation to competition. In the context of quasi-markets for public services, there are a range of different norms related to competition. Carmel and Harlock (2008: 156) argue that the state has played a crucial role in shaping these norms and changing behaviours, stating: 'The governance of the third sector not only privileges market-like behaviour and market-style organisational forms, but assumes their necessity'. The types of competition may vary with different norms for each of these parts of the market system. For example there can be competition with other providers including the private and public sector for public sector contracts. There can also be competition for clients who can be supported (Lyon and Smallbone, 2003). The latter form of competition is growing with increased emphasis on outcomes (such as people placed in work), rather than outputs (training provided) with funding tied to performance. There is also competition between prime contractors and subcontractors for a larger share of contracts once they have been awarded.

Norms of competition relate to what is considered acceptable behaviour. In a purely commercial market, this is clearer. In the delivery of public services, acceptable norms in the purely private market places (such as withholding information from competitors, not referring customers) may have severe impacts on social outcomes. This raises questions over whether or not social enterprises have different moralities and professional norms that changes the way they collaborate, the way they compete and their involvement in public service delivery, when compared to the private sector. To a certain extent the third sector as a whole has always been involved in a competitive environment competing for restricted resources (Williams, 2008; Kotler and Andreasen, 1996). This has led to the emergence of a set of common norms around acceptable ways of competing in different contexts such as for winning customers, competing between charity shops or competing for fundraising. For example there are norms against comparing the impacts of one charity with another when trying to increase fundraising, while still allowing for considerable investment in marketing related to increasing donations. However, this is changing as organisations use a range of social impact measurement tools to demonstrate their potential greater impact compared to other providers.

Competition and markets do not remove collaborative relationships but rather change them. As mentioned earlier, in many competitive markets there is a need for organisations to collaborate with partners on some issues while competing with the same partners on others – what some refer to as co-opetition. The extent to which this occurs and how it works in practice in a social enterprise context is not known. Social enterprises, as hybrid forms combining the economic imperative and social

objectives, might therefore be expected to be better suited to the contradiction of competition and collaboration, and able to evolve a range of norms that allow them to operate in the complex quasi markets for public services.

With more of an emphasis on competition, it is not known how those using the services will perceive the motives of third sector organisations. Anheier and Kendall (2002) state that non-profit organisations are well suited to play the trusted intermediary role between state and client, and there is a risk that this role may be lost. Williams (2008) is more optimistic about competition, seeing it as a way for the third sector to grow its role, impact and visibility while retaining its defining features.

## Conclusions

This paper has argued for a greater understanding of the dynamics of inter-organisational relationships involving social enterprises in public service markets. There is a mutual attraction between social enterprises and the public sector. Social enterprises benefit as they have a valuable income source that may be less affected by economic downturns. It also allows them the opportunity to scale up their impact either in terms of reaching a wider range of service users or to reach a wider geographic area (Wilson, 2009). The public sector is attracted by the innovative potential of these organisations, offering new ways of delivering services, having greater social impact and (at times) offering services more efficiently.

As the size of these markets has been growing, social enterprises have been developing a range of co-operative forms in order to access opportunities and to encourage innovation. There is therefore a need to look beyond single *organisations* and consider the market systems and forms of *organising*. This is in a period of flux with public sector reforms bringing in new market relationships. These will by-pass some relationships and require new relationships to be formed.

This paper presents a framework for understanding collaboration in a social enterprise context with vertical and horizontal relationships manifesting themselves in ways that are formal, informal, or having elements of both. These relationships allow services to be developed and new innovative configurations to be identified.

The paper explores how co-operation is built up, with issues of trust and power explored in the context of the social enterprise model. The issue of moral norms is identified as an area of academic exploration that has not been given adequate attention and which is of central importance to social enterprises as they try to balance their financial and social objectives. The process by which social enterprises build co-operation is also shown to be embedded in existing social relations and local contexts that shape the nature of the relationships and how the relationships are built up. Therefore, it is more important to understand the process of building co-operation rather than trying to describe the 'model' types of co-operative forms.

The final part of the paper has explored how the competitive environment being faced by social enterprises is shaping the collaborative relationships and norms of behaviour. While little research has been carried out in this area, lessons can be learnt from other studies looking at the emergence of new market forms. There is a need to understand the how the different types of collaboration are operating in specific contexts which are becoming increasingly dominated by market forces in the UK

and internationally (Carmel and Harlock, 2008; Eikenberry, 2009; Sepulveda, 2009). Research that links morality and different forms of the economy may shed more light (Sayer, 2004). This work identifies a range of perspectives on moral economies that may relate to the morality of products and services deliveries, the morality of balancing social and financial aims within a social enterprise, the morality of the inter-organisational relationships and finally the morality of institutions such as quasi markets and competition.

There are a number of policy and practical implications arising from this paper. As mentioned at the beginning, there is a growing interest amongst policy makers and social enterprises on increasing collaboration. The research presented here provides insights into how co-operation can be strengthened and encouraged. There are no easy fixes and examples of good practice can be found that demonstrate useful processes, but should not be used for identifying the exact form that organisations should follow. However, key factors include recognising the importance of existing networks and relationships, and creating the opportunities for groups to work together on smaller activities. The case study data shows the importance of recognising the historical context of collaboration that shapes the types of activities, the public sector funding and the individuals' career trajectories. These are the institutional contexts that should be taken into consideration.

There are questions over the extent to which greater collaboration is beneficial. Being overly close to the public sector can lead to co-option and limiting the advocacy role of independent organisations, mission drift from serving the beneficiary to serving the funder, and reducing innovation as organisations try to deliver in line with the status quo and commissioners' expectations.

There are also risks of dependence if public policies change or there is a reduction in public expenditure available. Mocroft and Zimmeck (2004) found that,

'funding of voluntary and community organisations expands and contracts more markedly than government spending as a whole. In other words, central government departments appear to treat this kind of funding as a more flexible or discretionary element, to be increased or decreased in response to economic exigencies or policy changes in high-profile areas such as homelessness, unemployment or crime' (Mocroft and Zimmeck, 2004: 19)

The issue of competition in quasi-markets is also likely to grow, and there will be a growing need to understand the nature of relationships and the moral norms that evolve in these changing economies.

Research on the topic of collaboration and public service delivery needs to understand why it occurs where it does and what constrains it elsewhere. Much literature describes the benefits of collaboration without examining the processes by which social enterprises reach it. There is an assumption that co-operation should appear when there are clear benefits in terms of reducing costs and maximising impact. This ignores the importance of context and how the actions of individuals or their organisations are embedded in existing social relations. There is a need to examine how collaboration is built up in different types of relationships (vertical v horizontal, formal v informal, high stake v low stake, for example). There are also differences based on the type of organisations and their histories, while recognising that there are rapid changes continuing in many organisations as they cope with the recession, potential future cuts in spending and public sector reforms. This has to be an interdisciplinary project involving hybrid research that mirrors the hybrid nature of social

enterprises. It should draw on a range of disciplines that allows an understanding of both the economic and social aspects of social enterprise activities and their collaborations.

## References

- Amin, A., Cameron, A., and Hudson, R. (2002) *Placing the Social Economy*. London: Routledge.
- Anheier, H. and Kendall, J. (2002) 'Trust and voluntary organisations: three theoretical approaches', *British Journal of Sociology*, 53, 3, 343–362.
- Atkinson, R. (1999) 'Discourses of partnership and empowerment in contemporary British urban regeneration', *Urban Studies*, 36, 1, 59–72
- Audit Commission (2008) *Hearts and Minds: Commissioning from the Voluntary Sector*. Audit Commission
- Big Society Network. (2010) What is big Society?
- Carmel, E. and Harlock, J. (2008) 'Instituting the "third sector" as a governable terrain: partnership, performance and procurement in the UK', *Policy and Politics*, 36, 2, 155–171.
- Clegg, S., Pitsis, S.T., Rura-Polley, T. and Marosszeky, M. (2002) 'Governmentality matters: designing an alliance culture of inter-organisation collaboration for managing projects', *Organization Studies* 23,3, 317–337.
- Clifford, D., Geyne Rajme, F. and Mohan, J. (2010) 'How dependent is the third sector on public funding?' *TSRC Working Paper* 45.
- Conservative Party (2008) 'A stronger society: voluntary action in the 21<sup>st</sup> century, Responsibility agenda', *Policy Green Paper* No. 5.
- Conservative Party (2010) *Building a Big Society*. London: Conservative party.
- Craig, G., Taylor, M., Wilkinson, M., and Bloor, K. (2002). *Contract or Trust: The Role of Compact in Local Governance*. Bristol, UK: The Policy Press.
- Curtis, T. (2008) 'Finding that grit makes a pearl: a critical re-reading of research into social enterprise', *International Journal of Entrepreneurial Behaviour & Research*, 14, 5, 276–290.
- Department of Trade and Industry (DTI) (2002) *Social Enterprise: A Strategy for Success*. London: Social Enterprise Unit, DTI.
- Dijkstra, P. and Knottnerus, S (2004) 'Successful partnerships for social enterprise, Social enterprises in partnership with the public and private sector as a source of inspiration and renewal in local and regional development. [online]
- Eikenberry, A. (2009) 'Refusing the market: a democratic discourse for voluntary and non-profit organisations', *Nonprofit and Voluntary Sector Quarterly*, 38, 582.
- Fukuyama, F. (1995) *Trust*. New York: Free Press.
- Gambetta, D. (1988) 'Can we trust trust?', in D. Gambetta (ed.) *Trust: Making and Breaking Cooperative Relations*. Oxford: Blackwell, pp. 213–237.
- Granovetter, Mark 1985 'Economic action and social structure: the problem of embeddedness'. *American Journal of Sociology* 91/3: 481-510.
- Granovetter, M. (1994) 'Business groups', in N. J. Smelser and R. Swedburg, (eds) *The Handbook of Economic Sociology*. Princetown, New Jersey: Princetown University Press, pp. 454–475.

- Hardy, C., Phillips, N. and Lawrence, T. (2003) 'Resources, knowledge and influence: the organisational effects of interorganisational collaboration', *Journal of Management Studies*, 40,2 289-313
- Hastings, A. (1996) 'Unravelling the process of "Partnership" in urban regeneration policy', *Urban Studies*, 33, 2, 253–268.
- Huggins, R. (2010) 'Forms of network resource: knowledge access and the role of inter-firm networks', *International Journal of Management Reviews* 12, 3, 335–352.
- IFF Research Ltd; (2007), "Third Sector Market Mapping" for the Department of Health.
- International Co-operative Alliance (ICA) (1994) Draft Statement on cooperative identity. Geneva: ICA.
- Kotler, P. and Andreasen, R. (1996) *Strategic Marketing for Nonprofit Organisations*. Fifth Edition. New Jersey: Prentice Hall.
- Le Grand, J. and Bartlett, W (1993) *Quasi Markets and Social Policy*. Basingstoke: Macmillan.
- Lukes, S. (2005) *Power: A Radical Review*. London: Palgrave Macmillan.
- Lyon, F. (2006) 'Managing co-operation: trust and power in Ghanaian associations', *Organization Studies*, 27, 1, 31–52.
- Lyon, F. (2009) 'Measuring the value of social and community impact', in Paul Hunter (ed.) *Social Enterprise for Public Service: How Does the Third Sector Deliver?*. London: The Smith Institute.
- Lyon, F. and Porter, G. (2007) 'Market institutions, trust and norms: exploring moral economies in Nigerian food systems', *Cambridge Journal of Economics* doi:10.1093/cje/bem008.
- Lyon, F. and Sepulveda, L. (2009) 'Mapping social enterprises: past approaches, challenges and future directions', *Social Enterprise Journal* 5, 1, 83–94.
- Lyon, F. and Smallbone, D. (2003) 'Joining-up entrepreneurship support: coordination and partnership amongst start up support providers in England'. Proceedings of the Regional Studies Association Annual Conference.
- Mawdsley, E., Townsend, J. and Porter, G. (2005) 'Trust, accountability, and face-to-face. interactions in North–South NGO relations', *Development in Practice*, 15, 1, 77–82.
- Mayer, R.C., Davis, J.H. and Schoorman, F.D. (1995) 'An integration model of organizational trust', *Academy of Management Review*, 20, 3, 709–734.
- Mocroft, I. and Zimmeck, M. (2004) *Central Government Funding of Voluntary and Community Organisations*. London: Home Office.
- Mollering, G. (2005) 'The trust/control duality: an integrative perspective on positive expectations of others', *International Sociology* 20, 3: 283–305.
- Mollering, G. (2006) 'Understanding trust from the perspective of sociological neo-institutionalism', in R. Bachmann and A. Zaheer (eds) *Handbook of Trust Research*. Cheltenham: Edward Elgar.
- Moore, M. (1994) 'How difficult is it to construct market relations? A commentary on Platteau,' *Journal of Development Studies*, 30, 4, 818–830.
- Murdock, A. (2007) 'No man's land or promised land? The lure of local public service: delivery contracts for social enterprise', Paper presented at the fourth UK Social Enterprise Research Conference, London South Bank University, July.

- Munoz, S.A. and Tindsley, S. (2008) 'Selling to the public sector: prospects and problems for social enterprise in the UK', *The Journal of Corporate Citizenship*, December.
- Nalebuff, B. and Brandenburger, A. (1996) *Co-opetition*. London: HarperCollins.
- Nicholls, A. (2008) 'Capturing the performance for the socially entrepreneurial organisation: an organisational legitimacy approach', in Mair, J., Robertson, J., and Hockerts, K. *International Perspectives on Social Entrepreneurship*. Basingstoke: Palgrave MacMillan.
- National Council for Voluntary Organisations (NCVO) (2008) 'Collaboration without borders. What can UK organisations learn about collaboration from international NGOs?'
- National Council for Voluntary Organisations (NCVO) (2009) *The UK Civil Society Almanac 2009*. London: NCVO.
- HMT (2008) *Accelerating the SME engine*. HM Treasury, London.
- Office of the Third Sector (OTS) (2009) *Real Help for Communities: Volunteers, Charities and Social Enterprises*. London: OTS.
- O'Neill, O. (2002) *A Question of Trust*. Cambridge: Cambridge University Press.
- OTS (2009) *Real Help for Communities: Volunteers, Charities and Social Enterprise*. London: Office of the Third Sector, Cabinet Office.
- Platteau, J.P. (1994a) 'Behind the market stage where real societies exist. Part I: The role of public and private order institutions', *Journal of Development Studies* 30, 3, 533–577.
- Platteau, J.P. (1994b) 'Behind the market stage where real societies exist: Part II The role of moral norms', *Journal of Development Studies*, 30, 4, 753–817.
- Portes, A. and Sensenbrenner, J. (1993) 'Embeddedness and immigration: notes on the social determinants of economic action', *American Journal of Sociology* 98, 6, 1320–1350.
- Power, M.K. (2003) 'Auditing and the production of legitimacy', [\*Accounting, Organizations and Society\* 28, 4, 379–394.](#)
- Putnam, R., Leonardi, R., and Nanetti, R. (1993) *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton University Press, Princeton, New Jersey.
- Reed, M., (2001) 'Organisation, trust and control: a realist analysis'. *Organisation Studies*, 22, 2, 201–228.
- Rousseau, D., Sitkin, S.B., Burt, R.S., Camerer, C. (1998) 'Not so different after all: a cross-discipline view of trust', *Academy of Management Review* 23, 3, 393–404.
- Sayer, A. (2004) 'Restoring the moral dimension: acknowledging lay normativity', mimeo, published by the Department of Sociology, Lancaster University.
- Sepulveda, L. (2009) 'Outsider, missing link or panacea? The place of social enterprise (with)in and in relation to the Third Sector', *TSRC Working Paper* 15.
- Spear, R. (2000) 'The co-operative advantage', *Annals of Public and Co-operative Economics*, 71, 4, 507–524.
- Spear, R., (2008) 'European perspectives on social enterprise', in Paul Hunter (ed.) *Social Enterprise for Public Service: How Does the Third Sector Deliver?*. London: The Smith Institute.
- Westall, A. (2009) 'How can innovation in social enterprise be understood, encouraged and enabled?'. A social enterprise think piece for the Office of the Third Sector. London: OTS.

- Wilson, A. (2009) 'Social entrepreneurs and public service delivery', in Paul Hunter (ed.) *Social Enterprise for Public Service: How Does the Third Sector Deliver?*. London: The Smith Institute.
- Williams, I. (2008) 'What does competition and collaboration mean in the voluntary and community sector? Compete or collaborate'. Seminar jointly organized by the NCVO Third Sector Foresight Project and Performance Hub.
- Williams, P. (2002) 'The competent boundary spanner', *Public Administration* 80, 1, 103–124.
- Williamson, O. E. (1993) 'Calculativeness, trust, and economic organization', *Journal of Law and Economics*. 36 (1), 453-486.
- Yin, R. (2003) *Case Study Research: Design and Methods*. London: Sage Publications.
- Zucker, L. G. (1986) 'Production of trust: institutional sources of economic structure, 1840–1920', *Research in Organisational Behaviour* 8, 53–111.

## About the Centre

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

Third Sector Research Centre, Park House, 40 Edgbaston Park Road,  
University of Birmingham, Birmingham, B15 2RT

Tel: 0121 01214147073

Email: [info@tsrc.ac.uk](mailto:info@tsrc.ac.uk)

[www.tsrc.ac.uk](http://www.tsrc.ac.uk)

## Social Enterprise

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

## Contact the authors

**Fergus Lyon**

[f.lyon@mdx.ac.uk](mailto:f.lyon@mdx.ac.uk)



This work is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Unported License.

© TSRC 2013

The support of the Economic and Social Research Council (ESRC), the Office for Civil Society (OCS) and the Barrow Cadbury UK Trust is gratefully acknowledged. The work was part of the programme of the joint ESRC, OCS Barrow Cadbury Third Sector Research Centre.