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Understanding social enterprises in the United Kingdom: the case of South Yorkshire

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Abstract

Purpose – This study aims to analyse the development of social enterprises in the UK, in the context of the increased need for creative solutions to ameliorate deprivation and deliver effective public services.

Design/methodology/approach – The investigation draws on a mixed method approach from a postal survey of 102 social enterprises complemented by detailed analysis of two selected cases and key informant interviews.

Findings – The results of the study show that there is a paradigm shift in the practice and conceptualisation of social enterprises in South Yorkshire, as they are increasingly taking a more corporate approach to achieve their outcomes.

Research limitations/implications – The study is limited to social enterprises in South Yorkshire, UK. Further comparative analysis in other regions and social contexts is required to explore if these results are widely applicable.

Practical implications – This study is of potential benefit to researchers and those involved in formulating policies for the development and support of social enterprise.

Originality/value – The study contributes to the extant literature by investigation of the development of social enterprise in competitive markets, which is an area that requires further academic scrutiny. The South Yorkshire region presents an interesting case that extends our understanding of the operations of social enterprises in the UK, given the high levels of deprivation because of the steady decline of its industrial base (Bache and Chapman, 2008).

Keywords Economic sustainability, Institutions, Social enterprise characteristics, South Yorkshire, Welfare intervention

Paper type Research paper



1. Introduction

The concept of social enterprise is increasingly being acknowledged as an effective intervention to address a variety of social problems (Smith *et al.*, 2013; Mason *et al.*, 2006). Social enterprises are found in many forms and seek to address some form of socio-economic deprivation through enterprise, in contrast to other non-profit organisations whose emphasis is primarily on profit maximisation and capital gain (Parensen, 2011). As a concept and practice, social enterprise is politically contested and subject to different interpretations (Kerlin, 2010; Teasdale, 2012; Young and Lecy, 2014). Scholars agree, however, that a social enterprise is a business engaged in some form of trading to produce a surplus or profit so as to reinforce its social ethos (Cornelius and Wallace, 2013; Eversole *et al.*, 2013). In spite of its recent emergence in academic literature, social enterprise is generally underdeveloped and lacks the critical mass needed to fully understand it (Haugh, 2005; Urban, 2008). Drawing from components of historical institutionalism (HI), this paper seeks to address this gap in knowledge by providing insight into the development and evolution of social enterprises in South Yorkshire, UK, a region which still faces an exceptionally difficult set of economic challenges because of the demise of its industrial base (Bache and Chapman, 2008). The structure of the paper is as follows: Section 2 focuses on the selected theoretical framework and a review of extant literature on the development and evolution of social enterprise. Section 3 discusses methodology and data collections. Section 4 outlines key findings. Section 5 discusses the findings and offers concluding remarks.

2. Theoretical approach: historical institutionalism and social enterprise

2.1 *Historical institutionalism*

This paper adopts the HI approach, which is an approach to studying politics and change (Steinmo, 2008; Mahoney and Rueschemeyer, 2003). This theoretical lens provides insight into how institutions structure behaviour and outcomes and how institutional changes occur over time (Sepulveda, 2014; Steinmo, 2008). Though HI only emerged in academia in the early 1990s, the approach itself is not new as it incorporates both old and new institutional theoretical ideas (Sepulveda, 2014). Weber (1968) and Polanyi (1957) are generally considered early historical institutionalists through their work demonstrating the interconnectedness of politics and economics. Polanyi's (1957) *Great Transformations* provides insight into the interactions between the state, society and markets and the instability resulting from the strictures of the latter. He argued that the economy is an instituted process, implying that markets are essentially political constructs and economics cannot be viewed separately from the political and social systems in which they are embedded. There followed a variety of variant approaches, often referred to as the new institutionalism; these understood the system of rules and regulations as the method by which institutions structure behaviour (Clarke *et al.*, 2016; Hall, 1989; Steinmo, 2008; Schmidt, 2010).

Sepulveda (2014) and Karlsrufer (2015) identify two key assumptions that underpin HI. Firstly, this approach places great emphasis on how institutions shape behaviour and politics through their focus on structural analysis. This perspective also makes it possible to identify and analyse the asymmetric power relations and strategies between different actors within a broader social structure. Immergut (1992) also supports this view, further arguing that institutions can both inform and prevent the development of specific policy interventions. Secondly, HI assumes that history shapes the way that

institutions operate and discharge their duties. In this regard, a more meaningful analysis of any institutional change should consider the historical origins of a path or path-dependent trajectory. This argument is consonant with the views of Broscheck (2011), Pierson (2000) and Salvador *et al.* (2014) who posit that initial decisions or past choices can influence specific institutional trajectories. Capoccia and Kelemen (2007) further stress that if the initial decisions or path dependence result in fundamental institutional change, then critical junctures should be the starting point in the historical analysis of a phenomenon. Historical institutionalists, therefore, will want to know the reason certain choices are made and/or why specific outcomes occur.

2.2 Historical institutionalism and social enterprise

Although there is a significant body of literature on institutional theory and its different forms in the study of social enterprise (Pinch and Sunley, 2015; Teasdale, 2012), there is little scrutiny on the HI theoretical approach to understanding the social enterprise sector. Researchers such as Borzaga (2007) and, most recently, Sepulveda (2014), however, have used components of this approach in analysing the development of social enterprise. Their work shows that to understand contemporary enterprise, it is important to gain insight into its historical origins and specific events that led to its development. This paper draws on two constructs of the HI approach, namely, structural analysis (ability of institutions to shape behaviour) and the historical dimension, incorporating path dependency and critical junctures. These enable examination of the development of social enterprise in the UK as a key welfare intervention as well as a culmination of a sequence of past independent events which continue to shape the future development of the concept (Steinmo, 2008; Karlhofer, 2015). The discussions begin with the historical development of social enterprise, given that historicity is a key construct of HI (Sepulveda, 2014; Broscheck, 2011).

Researchers agree that the industrial revolution of the nineteenth century, characterised by rapid industrialisation and harsh economic conditions, is associated with the emergence of social enterprise (Moulaert and Ailenei, 2005; Mendell, 2005). Extensive analytical work undertaken by Borzaga (2007), Moulaert and Ailenei (2005) and Polanyi (1957) provides an interesting aetiology of the establishment and growth of social enterprise. Their work shows that in the nineteenth century, social enterprise was seen as a counter-narrative to the pervasive exploitation of labour by the capitalist modes of production prevailing at the time. Polanyi (1957) and McClelland (1963) were critical of the effects of the internal logic of a self-regulating market system which led to industrial workers being the casualties of rapid industrialisation. The exploitative nature of the capitalist system and insufficient state welfare support provided the impetus for philanthropists to explore ways of alleviating poverty and deprivation through a variety of charitable programmes and institutions such as mutual societies and co-operatives (Monzon, 1989; Moulaert and Ailenei, 2005). Increasing welfare needs, limited state aid and decreasing philanthropic support forced some of these interventions to explore ways in which they could achieve financial sustainability, hence the development of contemporary social enterprises as we know them today (Bridge *et al.*, 2009). Both Borzaga (2007) and Moulaert and Nussbaumer (2005) argue that there was a greater need for a more entrepreneurial approach to addressing social needs rather than relying on donations and philanthropic support. This sequence of events, path-dependent processes or critical junctures (Broscheck, 2011; Erdmann *et al.*,

2011) arguably gave rise to contemporary enterprise. Social enterprise, therefore, emerged as a key policy construct within the matrix of the state, markets and society to address socio-economic instabilities arising from the interactions of these institutions. This is consonant with Polanyi's (1957) argument that self-regulating markets produced a disorder which left labour vulnerable and therefore requiring protection from the state.

Given this historical development, the development of social enterprise has been characterised by democratic models of governance and explicit social objectives such as job creation or provision of local services (VanSandt and Mukesh, 2012). In addition, social enterprises seek to be viable businesses that make surpluses from trading activities. This allows them to achieve financial sustainability and develop capacity to support their socio-environmental obligations (Doherty *et al.*, 2009; Eversole *et al.*, 2013). Social enterprises in the UK, however, are facing significant challenges to remain viable, given the effects of changes in the broader macro environment and the subsequent cuts in spending. We argue that these institutional changes are influencing the trajectory of social enterprise growth and the specific choices they are making to achieve their outcomes (Capoccia and Keleman, 2007; Erdmann *et al.*, 2011). For example, there is evidence that some social enterprises are increasingly considering corporate business operating frameworks such as share capital legal frameworks to compete in the market (Mswaka and Aluko, 2014; Harradine and Greenhalgh, 2012). These developments show a distinct shift from the philanthropic origins of social enterprise and can be seen as a significant causal mechanism of institutional change and practice of social enterprise.

This paper acknowledges some weaknesses of the HI approach in framing social enterprise, particularly the potential bias arising out of an overemphasis on path-dependent developments and lack of clarity in explaining institutional change (Schmidt, 2010). This approach, however, is useful for this study in two ways. First, it allows us to gain insight into the development of contemporary social enterprise and how it has evolved over time as a historically constructed institution, created by a sequence of events and path-dependent processes. This also makes it possible to understand the present dynamics and the extent to which the past has shaped the phenomenon. Second, the approach's focus on structural analysis provides a framework to analyse and discuss the positionality of social enterprise within a broader social field involving other actors such as the state and markets. This facilitates understanding of how social enterprises make decisions on ways to survive in challenging environments.

2.3 Social enterprises in South Yorkshire

This section provides the contextual background of social enterprises in the UK and South Yorkshire. The UK has about 70,000 social enterprises contributing £24bn to the economy and employing nearly 1 million per year (*The Financial Times*, 2015). Social enterprise is central to the UK Government's policy on tackling deprivation and regeneration of economically deprived areas across the country (Bertotti *et al.*, 2011; Mason *et al.*, 2006; Spear *et al.*, 2009). This policy thrust regards social enterprise as a mechanism to tackle deprivation and exclusion through sustainable enterprise activities (Bacq and Janssen, 2011).

Understanding the nature of social enterprise in South Yorkshire requires gaining insight into its regional political economy. The South Yorkshire region comprises four unitary boroughs of Sheffield, Rotherham, Barnsley and Doncaster. Historically, the economy of South Yorkshire was primarily industrial, and this dates back to the

nineteenth century industrial revolution with coal mining and steel production being the mainstay of the economy (Birch, 2006). The accelerated closures of steel industries and coalmines in the 1980s, however, resulted in massive job losses and devastated entire towns (Beatty *et al.*, 2007). This in turn created a plethora of socio-economic problems that resulted in high levels of unemployment and many families requiring welfare support. The region, therefore, benefited from a £1.8bn financial assistance programme from the European Union to tackle unemployment through a variety of regeneration interventions with a particular emphasis on social enterprise (Bache and Chapman, 2008).

In summary, the decline of the region's industrial base of steel manufacturing and coal mining resulted in particularly challenging socio-economic conditions that the state could not address on its own. This required the intervention of other forms of institutional support to complement the state's efforts.

3. Methodology and data collection

Because of the extent of the geographical area to be covered, the preferred methodological approach in this study is a mixed method approach involving the complementary use of quantitative and qualitative data collection methods (Denscombe, 2003; Ghauri and Gronhaug, 2005). The quantitative component of the research involved a postal survey of 102 self-defined social enterprises in South Yorkshire. A total of 218 postal questionnaires were sent in June 2012, and 102 were returned by the end of August 2012. This represented a response rate of approximately 48 per cent. This method allowed the researchers to identify numbers and patterns of organisations that described themselves as social enterprises across the region. Although an informal survey of social enterprises was carried out by the Sheffield Community Enterprise Development Unit in 2003, there was no official database available across the region. The researchers used their knowledge and contacts in key social enterprise support organisations across the region to obtain contact information. This involved the scrutiny of available sub-regional unpublished databases as well as information gleaned from archival data and other published information on the region. This exploratory quantitative research was complemented by an in-depth qualitative analysis of two selected cases. Information was obtained through the use of face-to-face interviews of key informants to explore the conclusions from the data collected through the questionnaire survey (Jack *et al.*, 2008; Saunders *et al.*, 2009). A semi-structured interview guide was used to extract relevant data from the selected interviewees. These were the relevant founders, directors and staff of the social enterprises as highlighted below in Table I. Eight interviews were conducted in total, lasting approximately one and a half hours each. The interviews were carried out, recorded and transcribed by the authors. The social enterprises were purposely selected and given fictitious names to anonymise them. One had company limited by guarantee (CLG) legal structure (The Adviser) and the other (The Consultant) had company limited by shares (CLS) legal structure. Type of legal structure and thematic activity were the key factors used to select relevant cases for this study, enabling their outcomes to be compared and contrasted.

The two cases selected for this study are shown in Table I.

SPSS was used to analyse the data because of the empirical nature and size of the sample that had been obtained. SPSS made it possible to define independent variables

	The Adviser	The Consultant
Thematic activity and enterprise activities	Provision of employment advice Training facilities Community shop	Provision of environmental consultancy
Type of legal structure	Company Limited by Guarantee (CLG)	Company Limited by Shares (CLS)
Interviewees	Director, three trustees and two staff members	Director, two board members and one member of staff
Sources of income	Grant and trading	Trading and equity investments

Source: Survey data

Table I.
Cases under scrutiny

and conduct cross tabulations and descriptive statistical analysis of the data to support findings of this investigation (Saunders *et al.*, 2009). The data collected from interviews of key informants were recorded, transcribed and manually analysed through an inductive process. This enabled us to generate relevant codes and identify emerging themes (Basit, 2003).

4. Key findings

The descriptive statistics from this work were complemented by qualitative data gleaned from key informant interviews. This allowed analysis of the development and identification of key emerging characteristics of social enterprises in South Yorkshire as discussed below.

4.1 History of social enterprise in South Yorkshire

Figure 1 shows that the majority of the social enterprises have been in existence for more than six years. Their history also pre-dates the influx of European financial investments into South Yorkshire which started in 1999 and is also linked to socio-economic challenges arising out of the decline of this region's industrial base (Beatty *et al.* (2007). This was confirmed by a respondent from the Consultant who stated "A lot of social



Source: Survey data

Figure 1.
Ages of social
enterprises

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28,6

682

enterprises from this area are a direct result of the closure of mines and factories [...] unemployment figures were unbelievable". The results also show a high number of social enterprises aged between two and four years. This might be explained by the launch of several financial support initiatives by the then Labour Government in 2006. Further analysis of the ages of the respondents' enterprises reveals that the number of those that have been in existence for less than a year is significantly greater than those that have been in existence for four to six years. The reason for this needs further research, although we suggest that this figure may include some organisations that re-branded themselves as social enterprises. This suggestion was confirmed by a respondent from the Adviser who stated:

Our social enterprise is probably one of the oldest in our area. We have also been called a charity or community group during our existence but our aim has always been to help people.

Although the exact ages of social enterprises in South Yorkshire are difficult to ascertain, their history can be traced back to the interventions implemented to address socio-economic challenges arising out of the economic upheavals of the 1980s (Thompson *et al.*, 2000).

4.2 Social enterprises and generation of income

The achievement of economic objectives allows social enterprises to achieve their social objectives. By analysing how social enterprises in South Yorkshire generate revenue, it was possible to evaluate the importance of their economic and social objectives in their practices, as shown below.

Table II shows that grant funding continues to be one of the most common sources of finance for social enterprises, with 75 per cent of the total income of the respondents coming from this source. It is also not surprising that this finding is associated with the CLG legal structure which is a common legal vehicle in the social enterprise sector and associated with non-commercial activities and strong social objectives (Lyon and Humbert, 2012). This (grant dependence) was confirmed by a respondent from the Adviser who remarked:

At board level, we know must earn more money [...] work towards sustainability [...] but we rely mainly on grant support [...] we don't want full scale commercial operations because we are here to help people.

Table II also shows that 18 per cent of the respondent organisations' income came from commercial trading and equity investments. The bulk of the Consultant's income came

Means of generating income	Number	Legal structure	Components and structure of income
Grant funding and trading activities	84	CLG	Grant funding, 75% Trading income, 15% Loans/equity investments, 0%
Trading activities/loans and equity investments	18	CLS	Grant funding, 0% Trading income, 80% Equity investments, 20%

Table II.
Means of generating income

Source: Survey data

from taxable income and contracts with various public bodies and private customers as confirmed by one of the respondents: “We are a commercial social enterprise [...] [and] we are negotiating with more private sector and local authority clients at the moment who are prepared to invest in us”. This response shows a strong corporate approach, underpinned by sustainable commercial activities. The Consultant, however, benefited from a CLS legal structure that permits equity investments and also permits distribution of profit and surpluses to those that have invested in the enterprise.

4.3 Governance and ownership of social enterprises in South Yorkshire

Given that social enterprises have traditionally been associated with the democratic model of governance, [Table III](#) shows a cross tabulation of the type of legal structure and governance of social enterprises in South Yorkshire.

[Table III](#) shows that all social enterprises that have CLG legal structures are governed by volunteer boards of directors. The volunteers are largely motivated by the satisfaction they get from the intrinsic nature of what they do ([Pearce, 2003](#); [Mswaka and Aluko, 2015](#)). On this particular point, the respondent from The Adviser said, “We are all volunteers; we don’t want to get anything out of this [...] I mean [...] financially. We are here to help the community”. This response resonates with [Evans and Syrett’s \(2007\)](#) observations on volunteerism in the non-profit sector. They stress that individuals on the boards of these organisations are normally recruited on the strength of their passion for the community and its well-being, rather than the expertise they bring to the organisations.

[Table III](#) also shows that there is a small number of social enterprises with paid boards of directors and staff. This is a significant finding in that there it shows a distinct move from traditional forms of democratic governance systems associated with social enterprise ([Harradine and Greenhalgh, 2012](#)). This was confirmed by the respondent from The Consultant who said, “Yes we have a good board and we go to them for advice on strategic [...] we are like a commercial company”. This for-profit governance dimension signifies a significant change in the way social enterprises seek innovative ways to achieve their outcomes in competitive environments ([Mswaka and Aluko, 2015](#); [Parensen, 2011](#)).

4.4 Thematic activities of social enterprises in South Yorkshire

The thematic activities of social enterprises in South Yorkshire are illustrated in [Table IV](#) below.

The results show that the respondents were involved in 18 thematic areas across South Yorkshire. This paper uses the term “regeneration catalyst” as an umbrella term to cover social enterprises that are simultaneously involved in a number of thematic trading activities in the pursuit of their objectives. This dimension was illustrated by the respondent from The Adviser who said:

We do almost everything here that we think can help our community [...] we have training facilities, a shop, advice service and a trading arm that assists the elderly who live here [...] one could call us a jack of all trades.

Further analysis of the findings suggests that social enterprises are widening their thematic areas, as confirmed by the respondent from The Consultant who said:

We started on a very small scale but we have expanded into other activities in addition to our core work [...] we offer environmental consultancy services to a wide variety of clients country wide.

Table III.
Cross tabulation of
legal structure and
governance of social
enterprise

Type of legal structure	Governance of social enterprise					Total
	Volunteer board and staff	Paid board of directors and staff	Volunteer and paid directors and main entrepreneur	Volunteer board and paid staff	Volunteer board and part-time paid staff	
CLG	8	–	–	61	4	73
Co-op	–	–	–	6	–	6
CLS	9	2	6	–	–	8
Unincorporated	–	–	–	–	–	9
Trust deed	–	–	–	2	–	2
Not yet incorporated	4	–	–	–	–	4
Total	21	2	6	69	4	102

Source: Survey data

Thematic activity	No. of organizations	Understanding social enterprises
Manufacturing	1	685
Arts and new media	11	
Environmental preservation	6	
Catering	1	
Childcare	3	
Managed workspace	4	
Transport services	2	
Advocacy, training and education	23	
Health and well-being	5	
Regeneration catalyst	20	
Employment services	9	
Information technology and communications	3	
Retail	4	
Banking and financial products	3	
Language promotion and development	3	
Commercial cleaning services	1	
Security and safety equipment installation	2	
Broadcasting services	1	
Total	102	

Source: Survey data

Table IV.
Thematic activities of social enterprises in South Yorkshire

This is a significant finding, particularly in view of the generally accepted view that social enterprises operate in areas of market and state failure (Chell *et al.*, 2010). This finding further indicates the continuing evolution of social enterprise beyond traditional paradigms and its ability to survive without traditional sources of funding.

5. Discussion and concluding remarks

In this paper, the HI approach has made it possible to understand and analyse the evolutionary processes by which social enterprise has developed in the UK. The results of this study show us that the history of social enterprise in South Yorkshire predates the influx of European financial investment into the region and is directly and intricately linked to interventions designed to ameliorate deep-seated deprivation across the region. Given that South Yorkshire was once a key economic hub of the UK economy, it is evident that the socio-economic conditions resulting from the collapse of the region's economic base provided the impetus for the establishment of social enterprises. These enterprises perform a crucial social function that complements the state's social welfare programmes.

A key component of HI is the concept of critical junctures and path dependence (Mahoney and Rueschemeyer, 2003; Erdmann *et al.*, 2011; Vohora *et al.*, 2004). These allowed the identification of key specific events that had an impact on the trajectory of contemporary social enterprise development. This paper, therefore, argues that because of the complexity of the economic environment and the continuing need to address social needs, some social enterprises in South Yorkshire are incorporating for-profit business strategies to achieve long-term financial sustainability. This corporatisation of social enterprise is an interesting development of social enterprise, given its philanthropic origins. The emergence of for-profit stewardship governance models as well as share capital legal structures in the social

enterprise sector highlights this dimension. Brown (2006) and Mswaka (2015) argue that this particular development reflects challenges that social enterprises face in mobilising capital and technical expertise. Therefore, consideration of for-profit business practices provides an infrastructure that allows corporate practices to be transferred to the social enterprise sector. The UK Government is also a key factor in corporatisation of social enterprise activities through the reduction in institutional funding. For example, the increasing entrapment of public services is seen as a direct result of cost-cutting measures implemented by the current government (Sepulveda, 2014). This trajectory is also reflected by the results of the census and thematic analysis of social enterprises in South Yorkshire. They show that social enterprises are expanding boundaries and becoming more business-like, moving into areas such as manufacturing and ICT, not traditionally associated with social enterprise. It can be argued, therefore, that despite being mission-led, social enterprises have a symbiotic relationship with the markets.

The challenges that social enterprises are facing are, therefore, some of the critical junctures that they have to overcome in their development (Broscheck, 2011; Edmann *et al.*, 2011). Overcoming them has resulted in fundamental shifts in practice that has seen an increased willingness to embrace creativity and innovation to maximise extraction of value beyond the social enterprise sector (Douglas and Grant, 2014; Teasdale, 2012).

In conclusion, a paradigm shift can be seen in the form of a path-dependent process (Salvador *et al.*, 2014; Vohora *et al.*, 2004) in how social enterprises in South Yorkshire are configured to deliver economic prosperity in challenging environments (Cornelius and Wallace, 2011). Considering their historical philanthropic background, these findings provide further insight into how social enterprise practices and characteristics are evolving as the sector tries to respond to challenges in the broader economic environment. This study has also produced vital empirical data that contribute to current knowledge and profiling of the sector. Importantly, these findings mean that the current conceptualisation of social enterprise, which rejects profit distribution and personal capital gain, no longer captures its true essence. For example, the current UK Government's definition of a social enterprise needs to be revisited, as this no longer reflects contemporary developments in the sector.

The findings of this study have practical policy implications; there is a need for continued institutional and technical support for social enterprises in South Yorkshire to enable them to develop capacity and complement the state in provision of welfare and in creating sustainable communities (Evans and Syrett, 2007; VanSandt and Mukesh, 2012).

However, further research is required to explore the key themes emanating from this study. It would be interesting to investigate whether social enterprises have relevant skills and competencies required, as they become more business-like. In addition, comparative experiences in other social contexts in the UK are required to explore whether these findings are widely applicable.

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