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Social Enterprise- an overlooked approach to addressing economic marginalisation

Article by Gerard Doyle

Introduction

At European level there is no universally accepted definition of what constitutes a social enterprise (GHK, 2006). However, the number of definitions of what constitutes a social enterprise reflects the diverse understanding of what a social enterprise actually is. The Department of Trade and Industry definition is widely used:

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 profit for shareholders and owners (DTI, 2002).

Social enterprises share a number of common characteristics and are generally established to achieve social objectives while simultaneously engaging in economic activity. They are democratic in that they are governed by a group of individuals on behalf of a geographic community or a community of interest. They strive to be accountable to the community in which they operate or aim to benefit.

Social enterprise can contribute to strengthening the practice of community development through:

- Demonstrating the benefits of collective action and mutuality which arise from social enterprises in disadvantaged communities. This can facilitate community development practice and provide evidence to communities where there is limited community development practice of the potency of collective action.
- Providing community development organisations, over time, with a source of independent income which strengthens their capacity to be more autonomous and sustainable and therefore to be in a stronger position to influence inequality in Irish society.
- Providing a model of economic development that can be concerned with promoting equality. It can work in tandem with community development in striving to create a more equal Ireland.

- Facilitating empowerment by providing a participatory mechanism for the regeneration of disadvantaged economies, allowing disadvantaged communities to have greater influence over how their community is physically, socially and economically developed.
- Assisting communities in acquiring new skill sets which can be transferable to community development practice in disadvantaged communities.
- Serving communities of interest by providing a mechanism to overcoming barriers for members of these groups to secure employment and engage in economic activity.

The article focuses on social enterprise in urban disadvantaged communities and its purpose is to outline the potential role and impact of social enterprise in addressing unemployment, promoting economic activity and the overall regeneration of urban disadvantaged communities in the Republic of Ireland. It is divided into the following sections:

- Objectives of social enterprise in disadvantaged communities.
- Factors that contribute to social enterprise development
- Factors that constrain the effectiveness and prevalence of social enterprises in tackling disadvantage in urban communities.

The objectives of social enterprise activities in disadvantaged communities

Social enterprises have a mixture of social and economic objectives (Pharoah, 2004). In terms of the social objectives, Pearce (1993) identifies community development as one of the core objectives of many social enterprises; if this goal is met, it can lead to the acquisition of management skills and strategic expertise in the community and promotes participatory democracy. In addition, social enterprise development can empower local people to take action within their communities (McArthur and McGregor, 1989).

In terms of economic objectives, McGregor et al. (1997) identified employment creation to be the single most important objective to over 70% of social enterprises interviewed. Unlike the private sector, social enterprise targets employment at the long-term unemployed (McArthur, 1993) and can serve as an intermediate labour mechanism enabling economically inactive individuals living in disadvantaged communities to boost their employability (Campbell, 1999). Cassidy (2001) points to the role of social enterprise in providing the infrastructure – managed workspace – for private enterprise to be drawn into disadvantaged communities, which can lead to employment opportunities for residents in these areas.

Evers et al. (2004) maintain that social enterprise has emerged as a response to market failure to job creation and that a key objective is to provide services that meet the needs of social groups or communities experiencing social exclusion. According to Leadbetter (2007), policy-makers have placed increasing emphasis on social enterprises for the delivery of services to disadvantaged communities as a result of reductions in public funding coupled with inefficiencies in public sector provision of services. According to Twelvetrees (1998), social enterprises can acquire assets leading to wealth creation which in turn can stimulate further social enterprise development, and can serve as the catalyst for the regeneration of disadvantaged communities.

Regarding ideological objectives, Pearce (2003) asserts that there are different approaches underpinning and motivating the development of social enterprises. The reformist approach is concerned about social enterprise as an extension to private and public systems where the former cannot extract adequate profit and the latter is emasculated due to a combination of the drive to minimise State intervention and macro-economic environment forces. The *radical* approach is concerned with providing an alternative to capitalism and demonstrating that there is a different way of engaging in economic activity.

One of the strengths of social enterprises is that they demonstrate an alternative to the dominant system of private enterprise, where profit maximisation is the fundamental objective (Amin et al, 2002). Douthwaite (1996a) states that social enterprise can play a central role in communities becoming self-reliant, empowering individuals collectively to meet their own needs from their own community's resources. Douthwaite (1996b) provides a framework for communities to become more self-reliant using social enterprise; however, some of the prerequisites could be beyond the capacity of urban disadvantaged communities to attain due to a range of factors. Social enterprise is valuable because it can demonstrate an alternative to market-led and trickle-down economics (McArthur, 1993).

Social enterprises activities

Social enterprises translate the above objectives to activities to take them forward. Pearce (2003) proposes a typology of activities that social enterprise engages in:

- Local development and regeneration including the provision of managed work space, business incubation, local development and regeneration.
- The delivery of services formerly provided by the State.
- Providing services to the community in response to unmet needs.

- Market-driven community enterprises providing services in competition with the private and public sectors.

According to McGregor (1997), social enterprises tend to provide semi-skilled or low-skilled employment with concomitant low pay. This need not be the case. With a more supportive State, as is the case in Italy, social workers' cooperatives have flourished in the educational, health and construction sectors, generating employment that would not be considered low value (SEL, 2002).

Although social enterprise can provide a range of activities, it should not be a replacement for public services, according to Amin et al. (2002). He asserts that it should complement high quality welfare services while promoting participation.

Doyle (2009) identified that social enterprises can provide a range of services depending on the needs of the community. This research differentiated between social enterprise with a dominant social mission (for example, to improve the quality of life of residents in the community), and social enterprises with an economic mission (for example those that are primarily engaged in activities to stimulate enterprise development and entrepreneurship and generate wealth for community benefit). Also, the research highlighted the important role social enterprises can play in underpinning the economic regeneration of local economies.

In the table below, the social enterprises have been categorised according to the kind of activity they engage in. For each category, the table shows the aim of the activity and examples of the range of enterprises are included. It is a theoretical framework based on evidence gleaned from research of social enterprises in urban disadvantaged communities (Doyle, 2009).

Table 1: Social enterprises by aim and activity

Category of social enterprise	Aim of activity	Examples of social enterprise cited
Service provision	Improve the quality of life within disadvantaged communities	Childcare provision, combating fuel poverty, community education, home help service/elder care, estate maintenance and housing management

Environment for enterprise	Provide the infrastructure and environment for private and social enterprise	Managed work space, social finance provision
Generating wealth for community benefit	Establish community enterprises to generate income in order to subsidise or stimulate other social enterprises	Community property including: retail units, social housing, housing for students, car parks leisure facilities
Providing services for the State	Replace services that would once have been delivered by the public sector	Maintaining green spaces, managing housing stock, waste management

Factors that contribute to social enterprise development

A combination of factors within and external to communities are required for the successful development of social enterprises in urban disadvantaged communities. Furthermore, social enterprises require the assistance of a number of stakeholders in order to become sustainable, especially when located in disadvantaged communities with relatively limited expertise and resources (Doyle, 2009).

Demographic factors

Disadvantaged communities are characterised by relatively high levels of unemployment and low levels of financial, legal and management expertise. These types of expertise are important in assisting social enterprise development. (Amin et al., 2002). It is in this context that an examination of the factors that stimulate social enterprise development takes place.

The presence of community activists who are committed to developing social enterprises is an important stimulus for social enterprise development in a disadvantaged community (Cooper, 2005). Amin et al. (2002) argues that, in addition to committed community activists, successful social enterprises require leadership with a range of skills and expertise. However, Pearce (2003) argues that in addition to this, the existence of community development infrastructure is essential so that nascent social enterprises are rooted in the community. Furthermore, these community organisations must be open to pioneering social

enterprise development (Twelvetrees, 1998) and be willing to take risks and not fear the possibility of failure.

Role of community organisations

According to Swash (2007), community organisations can perform a range of functions in assisting social enterprise development in disadvantaged communities. Firstly, they can act as a catalyst for social enterprise development. Secondly, they can refer individuals belonging to 'hard to reach groups' to the social enterprise. Community organisations should encourage residents to purchase the services or products available from social enterprises and indeed do so themselves.

Central Government

Doyle (2009) stresses the need for central Government to direct State agencies to support social enterprise development. This could take a number of forms. First, as is the case in Italy, legislation could be passed to compel State agencies to ring-fence a proportion of all contracts for social enterprises,. Second, central Government could provide long-term grant finance for social enterprises. This would be similar to the function of private equity finance for private businesses. Third, central Government could encourage and direct State agencies to deal with social enterprises as important stakeholders in the economic regeneration of disadvantaged urban communities.

Influence of the State at local and regional level

Hines (2007) maintains that the influence of the State is pivotal in stimulating social enterprise through the provision of a range of supports and assistance. In particular, Oakley (1999) draws attention to the central role local authorities can play in this regard. They can award contracts to social enterprises, which benefits the local authority, the social enterprise and the community concerned (Brennan and Ackers, 2004). However, social enterprises must not be seen by the State as a cheap option to reduce the size of the welfare state and provide cheaper employment (Graefe, 2002).

Carley (2002) also emphasises the importance of long-term investment in social enterprises in disadvantaged communities. Local authorities are ideally placed to promote social enterprise within their institutions and to provide a coherent framework within which social enterprises can be supported at varying stages of development. Specific assistance can take the form of providing opportunities for social enterprises to deliver local authority contracts, transferring assets to social enterprises and leveraging external investment on their behalf (Carley, 2002).

According to Doyle (2009) the State – in particular local authorities and the HSE – is ideally positioned to stimulate and assist social enterprise development in the following ways:

- Contracting social enterprises to deliver services. State agencies should support social enterprises to enhance their capacity to tender for contracts.
- Devising a policy framework which outlines the State's view on the role of social enterprises.
- Providing start-up finance for social enterprises.
- Changing its perception of the social enterprise sector from one of a relatively inexpensive, active labour market mechanism, to one of a provider of quality services and an agent for the sustainable regeneration of disadvantaged communities.
- Engaging with community organisations to devise a social enterprise development strategy for the area which would benefit both the local authority and the community.

Alliances

Social enterprises develop alliances with public and private sector organisations as well as financial institutions with a view to realising their mission (Lyon and Ramsden, 2006). Social enterprises can have mutually beneficial relationships with the communities in which they are based (Peattie and Morley, 2008). Although community activists and organisations can play a key role in social enterprise development (Pearce, 1993, 2003), Amin et al. (2002) is of the opinion that lack of expertise within disadvantaged communities, arising from poverty, limits the capacity of disadvantaged communities to develop social enterprises. This necessitates alliances with entities from outside disadvantaged communities.

Doyle (2009) asserts that, in order to be effective, social enterprises must form alliances with different stakeholders within their community, with other social enterprises, and with groups located outside their community, notably state agencies, business people and professionals.

Factors that constrain the effectiveness and prevalence of social enterprises in tackling disadvantage in urban communities

Social enterprises encounter a number of constraints which adversely affect their prevalence and effectiveness (Smallbone, 2001). Constraints emanating from outside of disadvantaged communities include:

- Difficulty for social enterprise to enter the mainstream of economic policy, as the dominant economic model is underpinned by values which are not consistent with those of social enterprise.
- Lack of appropriate finance, both grant and loan, for social enterprises at various stages of development.
- Central Government and State agencies' policies, practices and attitudes towards social enterprises. The lack of supports allocated to social enterprises compared to those afforded to private enterprises makes it difficult for them to grow, and reducing or withdrawing State funding from regeneration programmes prematurely can have an adverse impact on communities' efforts to develop social enterprises.
- The dearth of research on social enterprise within urban areas preventing the gathering of evidence to support demands for additional resources for social enterprise interventions in disadvantaged communities.

These external constraints arise largely from a lack of understanding of social enterprise development on the part of the State and a lack of vision of the potential role social enterprise could play in the regeneration of urban disadvantaged communities. Such understanding and vision are absent principally because the State's policies and practices are informed by a belief that market-led interventions result in superior outcomes (Doyle, 2009).

Other constraints emanate from within disadvantaged communities. These include:

- The demographics and extent of poverty in disadvantaged communities, which can make it difficult for social enterprises to access skilled labour and management expertise.
- The low level of awareness of many social enterprises that they are part of a social enterprise sector; this lack of awareness limits their capacity to play a more central role in economic development in Ireland.
- The strategy of solely meeting an identified social need (for example, childcare, services to the elderly) rather than those with an economic focus, such as acquiring property and other assets for community benefit. This can limit the capacity of social enterprises to economically regenerate disadvantaged communities.
- The absence of an independent social enterprise support structure at national, regional and local levels, which makes it more difficult for many of the aforementioned barriers to be addressed.

All of these constraints combine to make disadvantaged communities less receptive to social enterprise development than more affluent areas.

Conclusions

Social enterprises pursue a combination of economic, social and ideological objectives. Through its funding programmes, the State has a tendency to influence social enterprises' to focus on generating employment and providing local services in disadvantaged communities. This has resulted in the State initiating the National Social Economy Programme and the Community Services Programme. As yet policy makers have not developed grant finance funds to assist social enterprises to grow, policies that enable social enterprises to secure a proportion of public contracts or a strategy for the transfer of obsolete assets to community trusts in order to assist communities in generating income for social enterprise development. However, evidence of the impact of social enterprises in Italy and Quebec, would suggest it would constitute a missed opportunity to address economic marginalisation in disadvantaged communities if social enterprises were not resourced and supported to implement a wider range of objectives by both the State and communities. (Graefe, 2001; Sel, 2002).

Social enterprises can achieve the following, social, economic and ideological objectives:

- Increasing the skill levels of employees.
- Generating employment in disadvantaged communities often targeting the long term unemployed and individuals who are distant from the labour market.
- Strengthening local community leadership and these acquired skills can be invaluable in allowing social issues to be more effectively addressed.
- To serve as a mechanism for communities to have greater control over how their environment and services are planned and delivered thus building innovative forms of local democracy.
- Developing an environment that attracts investment into a disadvantaged community, most notably, through the provision of infrastructure including managed workspace.
- Generating income streams which can stimulate additional social enterprises or can be invested in anti-poverty initiatives
- Demonstrating alternative ways of conducting economic activity to market- led systems.

Social enterprises can engage in a range of activities including local development, provision of services on behalf of the State, responding to unmet needs in communities and to market-driven factors. Some commentators consider social enterprises to be restricted to engaging in low-skilled activities; however, what is happening in other European countries counters this perception. Additional levels of support from the State sector could enable social enterprise to engage in more high valued activities such as renewable energy.

Social enterprise can also demonstrate that there is an alternative to 'conventional' enterprise (private) which can result in a more humane form of organising economic activity, which respects local communities and is concerned with equality and social justice.

However, as emphasised by social enterprises, social enterprise is not a panacea for addressing economic marginalisation. Instead, it needs to be complemented by the interventions of a strong and progressive welfare state.

If social enterprise is to play a more effective role in the regeneration of disadvantaged communities the State, community organisations and social enterprises would need to embrace it to a greater extent. State agencies, in particular local authorities, are ideally placed to support social enterprise development through public procurement, and the allocation of assets to social enterprises. This would lead to sustainable community regeneration, a reduction in long-term unemployment and the provision of more responsive community services as well as giving the State value for money that could not be matched by the private sector.

It is therefore critical that policy-makers place social enterprise at the cornerstone of all future urban regeneration programmes and indeed economic stimulus programmes, thus ensuring that local communities acquire jobs, access responsive services, and have an improved quality of life that is not provided by private-led regeneration initiatives.

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