

Third Sector Research Centre Working Paper 83

Innovation and social enterprise activity in third sector organisations

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Abstract

There is a growing interest in the role of social enterprises and third sector organisations in delivering a range of services and many claims made about their innovative potential. There is therefore a need to examine the approaches to innovation. This paper examines the different sources of innovation amongst third sector organisations that are involved in social enterprise activity. Drawing on three case studies of charities with a majority of their income from social enterprise activity, the paper explores what innovation can mean in the current policy environment and also identifies the diverse sources of innovation. These can relate to the products or services and to the process of delivering these. Social enterprise activity can also create a space for innovation in terms of positioning services for new users/funders, and can reflect a changing paradigm of delivering services. The paper concludes by raising questions regarding the extent of innovative activity and the extent to which innovation is encouraged or hindered by current political and institutional context.

Keywords

Social enterprise, innovation, third sector, public service delivery.

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Introduction

There are many claims made about the innovative nature of third sector organisations (TSOs) and social enterprises, although little is known about the different approaches to innovation and the concept of innovation can be interpreted in different ways. TSOs in the UK are perceived by institutional and government funders to be inherently innovative and are better able to provide services to local communities where the state or the market cannot. Yet research (see for example, Osborne 1998; Osborne et al., 2008) suggests the innovative capacity of TSOs in the UK is influenced by government policies and institutional factors instead of an intrinsic consequence of their organisational structure or culture, as suggested in the previous literature.

This paper examines the approaches to innovation by TSOs and social enterprises involved in delivering services particularly those funded or procured by the public sector. The research draws on three case studies of charity TSOs that have embarked on social enterprise activities. We explore the innovative aspects of their activities and highlight the challenges that they face in the process of taking an enterprise approach. In each case, interviews were undertaken with the chief executive as well as a number of other senior managers where possible. While the meaning of the term 'social enterprise' is contested (Teasdale, 2011), this paper explores those organisations that show a majority of their income from social enterprise activity such as trading with the public or winning public sector contracts.

The paper contributes to understanding how innovation may be occurring in TSOs and social enterprises. It also sheds light on how organisations innovate in the context of participating in markets, and through involvement in social enterprise activity. Policy makers are particularly interested in TSOs undertaking social enterprise activities i.e. 'trading with the public body: undertaking specific activities in return for payment' (HM Treasury, 2005: 19). Whilst this paper is based on the experiences in the UK, it is equally applicable to third sector organisations elsewhere that are operating in increasingly competitive market/quasi-market environments.

Social enterprise activity in the UK third sector

The third sector is loosely defined as occupying a space in economy and society that is separate from the public and private sectors, although what is and what is not included is a point of contestation (Alcock and Kendall, 2010). Brandsen et al. (2005) explore the characterisation of TSOs and suggest that the traditional ideal-typical characterisation of TSOs is no longer applicable because these entities have developed hybrid organisational characteristics (e.g. adopting multiple goals - social, economic, environmental, resource mix, and governance systems) as a response to external environmental pressures from market and the state.

Using social services provision as an example, Evers (2005) argues that voluntary and community social enterprises have emerged from the *New Public Management* era due to a process of hybridisation between third sector and public sector organisations as various types of public services, governance mechanisms, networks and markets overlap and intertwine. This development is particularly evident in the UK since the early 2000s where central and local governments have been

urging TSOs to adopt the social enterprise model to effect social change, to deliver services to the local community more effectively and as an alternative means to sustain their operations (DTI, 2002; Cabinet Office, 2006). The shift to the increasing emphasis of earned income and participation in market activities, can be referred to as social enterprise activity (Sepulveda, 2009).

Some forms of social enterprise activity have been operating in the UK third sector since the mid-1800s, e.g. co-operatives and community enterprises that used their trading surpluses to improve the economic situations of their members or disadvantaged neighbourhood groups (Social Enterprise Coalition, 2003). There have been earlier references in other community and enterprise activities throughout history, with evidence from the earliest civilisations of forms of co-operative enterprise. However, there remains no one agreed definition of social enterprise in the UK despite its historical roots.

The UK Department for Trade and Industry defined social enterprise as a business trading for a social purpose whose surpluses are principally reinvested for that purpose, or in the community, rather than established to maximize profits for shareholders and owners (DTI, 2002). This is a loose definition that has been reinterpreted over time to include or exclude different elements of what might be labelled as social enterprise (Teasdale, 2011). There have been attempts to identify defined groupings within the commonly accepted definition of social enterprise in the UK. For instance, Lloyd (2003) identified distinct groupings of social enterprises. They comprise a diverse range of organisational forms such as employee-owned businesses, credit unions, co-operatives, development trusts, social firms, intermediate labour market organisations, community businesses and charities' trading arms – each having particular environmental and organisational distinctiveness.

The diversity of social enterprise can also be seen as a continuum from the more philanthropic organisations with trading elements to the commercially oriented businesses that still have core social aims (Dees et al., 2001: 15). Despite the considerable debate and attention to finding a definition of social enterprise, there remains much contestation with differing interpretations of what is meant by 'social' or 'trading'. Social enterprise can therefore be seen as a social construct that can be viewed from varying perspectives and dimensions (Lyon and Sepulveda, 2009; Teasdale, 2011).

Trading activities have been increasingly driving the UK voluntary sector economy since the early 2000s (NCVO, 2006). For instance, earned income from trading and non-voluntary sources of UK charities reached £17.4 billion in 2008, or a 76% increase from a decade ago (NCVO, 2010: 46). Several drivers have been cited as causes for the emergence of social enterprise activities among charitable organisations in the UK in the past decade. A major impetus for the growth of social enterprise as an organised activity in the UK has arguably been the former Labour government's efforts to shape the role of charities and the wider third sector in a mixed economy of public service provision (Cabinet Office, 1999; DTI, 2002). In the UK, a nationwide governmental Social Enterprise Strategy was launched in 2002. It identified a range of policy initiatives aiming to increase the entrepreneurial potential of TSOs in the delivery of public services. They included the creation of the new legal form (the Community Interest Company) in 2005, improving access to social finance and procurement opportunities for social enterprises, and provision of advisory support. Government policy interest in social enterprise activity among TSOs have continued under the new Conservative-Liberal

Coalition Government since May 2010 (Cabinet Office, 2010). The 'Big Society' agenda sees a greater role for social enterprises in delivering public services and a growing interest in encouraging social enterprise and employee mutual spin outs from the public sector.

At the same time, greater economic uncertainty and increasing competition for voluntary donations and statutory grants/contracts have contributed to a challenging funding environment for TSOs. These external factors have driven many TSOs (especially charities) to put more emphasis on increasing their earned income and trading activities to generate additional revenue to sustain their core charitable work. Although undertaking trading activities for a surplus is legally permitted under current charity law in the UK, charities engaged in social enterprise activity navigate between their social objectives and the need to remain financially viable. Tension is thus emerging in TSOs between the need to maintain a strong strategic position anchored in their social mission and charitable purpose, preserving their core values and traditions, and being able to respond effectively and innovatively to the transient demands of their external environment (Chew and Osborne, 2007).

Exploring innovation

The typical meaning of innovation (newness and discontinuity) is often garnered from private sector literature that is aimed predominately at manufacturing product innovation (Osborne and Brown, 2005). This 'radical' form of innovation is arguably less prevalent in service innovation, especially public or social services, which could involve incremental organisational change and developmental activities (Osborne, 1998: 65).

Westall (2007: 4) defines innovation in social enterprises as comprising a broad range of possible organisational changes such as changes in products, services and processes to adapt to new conditions and/or to meet needs in different ways in varying degrees. Innovation (the process and outcomes) can thus be better understood when it is viewed as part of organisational change (Normann, 1971). In this regard, different types of organisational innovation (e.g. total, expansionary, evolutionary and developmental) could affect the actual services that a TSO offers and the target users/audiences that it is serving (Osborne, 1998; Osborne and Brown, 2005: 152). Moreover, Bessant and Tidd (2007) identify different sources from which innovation can emerge: products, processes, shifting market positions or evolving paradigms. Innovativeness is therefore a constructed and contingent criterion rather than an inherent one to determine the extent of social enterprise activity in TSOs.

However, there is scant empirical research that identifies these elements of innovation more explicitly in TSOs that have embraced the social enterprise model as a way to respond to external environmental changes. There is therefore a need to understand how social enterprise activity shapes innovation processes and the impact this has on the relationship between the various actors (e.g. managers/staff in TSOs, end-users, funders).

Findings: innovation practices in case study organisations

We now illustrate the efforts of three TSOs that have embarked on social enterprise activities in the provision of public services in the UK in their respective ways, and highlight the innovative aspects of these activities. We employed a combination of data gathered from each case study, i.e. organisational documents, published annual reports, media reports and interviews with key decision makers (where appropriate). Pseudonyms are used in place of the case organisations' actual names that are illustrated in this paper to ensure their anonymity. Each case depicts a particular aspect of innovation from the TSO's perspective, namely, as an overarching organisational-wide philosophy to direct the entity's social enterprise activities (CASE A), as new offerings (products/services) aimed at new/existing target audiences to maintain the organisation's financial sustainability (CASE B), as an alternative financial model to encourage social inclusion and sustainability (CASE C).

CASE A - Innovation based on a user-driven model for social enterprise activities

CASE A is registered charity set up in 2001 in England that aims to help disabled people with physical and learning difficulties to live independent lives. From its inception, it has adopted a 'user-driven' model of organisational development, which served as a mantra to direct all its social enterprise activities. This model is based on a key assumption that the 'lived and shared experiences' (i.e. the needs, fears and aspirations) of disabled people, as users of public services, can and should play a leading role in the co-creation and co-production of the organisation's offerings to its key target audience (Fenner and Martin, 2010). The concept of co-production is not a new one in the context of public service delivery, and various perspectives (e.g. economic, social and organisational) can be found in the literature. However, a common characteristic among these definitions is the importance of collaborative long-term relations between citizens (as service users and co-producers), voluntary and co-operative forms of organisations (e.g. social enterprises) and the state in achieving public service improvements. From an organisational perspective, the user-driven model employed by this case organisation has been instrumental in guiding its social enterprise endeavours. It is an approach which affirms and supports an active and productive role for people who use public services, and the value of collaborative relationships in delivering the outcomes negotiated with the person using the service (Boyle and Harris, 2009).

'The user-driven model is our innovative approach to achieve our mission – our way of working throughout the organisation – to incentivise disabled people to be key drivers of their own destiny in life it is unique to our context due to the lived experiences of our users.' (Manager, CASE A)

Trading activity provides a means for the charity to achieve its social purpose in a financially sustainable way. Whilst the user-driven model of working is not exclusive to this organisation, it has nevertheless been effective in achieving its core mission of helping disabled people become independent by creating an innovative culture throughout the organisation. For instance, a major social enterprise initiative was set up in 2006 to help young disabled people aged from 16 to 25 years to 'overcome barriers to work'. It was operated by and for young disabled people themselves. It strived to achieve this objective by running different educational and training activities for disabled youths who

had been referred by various external parties (e.g. voluntary sector partners, government agencies, individuals and families) and it in turn helped them to find employment in the local area through securing apprenticeships with local private sector businesses. In 2009, the three 'original' apprentices were given full time employment contracts and had themselves employed three more young disabled people as apprentices to run the social enterprise project, as well as provided work opportunities for a further 21 young disabled people. The use of apprenticeships as a vehicle for young disabled people to access employment attracted attention nationally, resulting in a visit to the organisation by the UK Minister for Apprenticeships in October 2009 to explore the possibility of applying this social enterprise initiative to other TSOs. In addition to using apprenticeships and work experiences to enable disabled people to engage with the reality of work, the social enterprise also organised a Summer Job Forum in 2009 (funded partly by a local voluntary grant) where work and employment was explored through the use of a variety of media such as theatre, newspapers, arts and crafts as well as visits by well known national/local celebrities.

A major challenge experienced by the organisation was to become financially sustainable in the longer term and to reduce the dependency on public funding. It had been successful to a certain degree by reaching out to the private sector for alternative funding in place of government grants (e.g. lottery funding) and to avail work placements for young disabled people through its various social enterprise activities such as the one highlighted above. However, overcoming the perception that employers are fearful and ignorant of dealing with people with disability and a lack of understanding regarding disability are on-going concerns for this organisation.

CASE B - Innovation as developing new services to a diverse target audience

CASE B is an environmental conservation non-profit organisation in West Wales. It was set up in 1987 in direct response to the catastrophic decline in wildlife habitat and biodiversity in the farmed countryside in England and Wales. The organisation's aim was to help reverse the process of degradation in parklands in the local area without major interventions or capital expense and to monitor the speed and extent of the return of wildlife. Reinstating more traditional grazing regimes, haymaking, reversing drainage, stopping most fertilizer inputs and fencing off overgrazed hedgerows, streams and ditches were all used to help 'kickstart' natural processes. By 2010 it boasted of an environmentally rich and diverse meadow in the local region containing over 100 plant species, 46 bird species breeding, totalling over 200 pairs on just 40 acres; the lake, pond and field scapes now support 14 species of breeding dragonfly and damselfly – a notable diversity in west Wales – and large populations of small mammals, butterflies and ground invertebrates have returned to the meadows and pastures. This transformation was recognised by the Countryside Council for Wales who awarded the organisation a 'notable nature reserve' in the UK.

A major driving force behind the organisation's ability to achieve its social and environmental objectives has been its focus on creating innovative education and training programmes to a diverse number of target audiences (e.g. conservation professionals, landowners and farmers, local authority land use managers and advisers, students and college groups) with an interest in the environment, the countryside and its wildlife. Hence, it was paramount that the organisation's training courses were delivered by highly experienced tutors, ecologists and conservation professionals. These programmes

included one-day practical workshops designed specifically for people who wanted to manage some or all of their land in a more wildlife-friendly way, bespoke courses tailored to particular groups from a variety of conservation and land management agencies, and research-led projects in identifying, surveying and recording wildlife species in the local area:

'Our courses are extensive and their prices are extremely competitive, making the social enterprise one of the most cost-effective and best-value training providers in the UK. We need to be more enterprising in order to deliver the services that they aim to deliver to their target users and in support of their social and environmental missions.' (Manager, CASE B)

Two key challenges faced by managers of this fledging social enterprise were the organisation's remote location in West Wales and its heavy reliance on grant aid from local and regional government agencies, EU and lottery funding for two thirds of its annual operating income. A key strategy of the organisation's social enterprise activities (in particular its earned income efforts) was to focus in the area of bio-diversity and eco-tourism using the nature reserve in order to generate more earned income from paying users. However, a major dilemma faced by the management of this social enterprise was to balance between adopting commercial principles/approaches in its operations and preserving its social mission in society. In 2010, the organisation decided to initiate a collaborative network among other TSOs with different social missions in the regional community and with the help of the Institute of Fundraising Wales to develop a more targeted marketing approach to promoting their services to new audiences in the community. This collaborative approach to their marketing and fundraising endeavours has helped the organisation and other TSOs in the network to increase their income from fee-for-service activities whilst maintaining their roots in the community:

'Our marketing and management operations need to be comparable with those of a business entity; we need to be innovative and increase our professionalism in the delivery of our services, but at the same time we need to be much more rooted into the community. If social enterprise activities are undertaken in a too capitalistic way, we will alienate ourselves from the very community that we strive to serve in the first place.' (Manager, CASE B)

CASE C – Innovation as an alternative model for funding its services

This charitable organisation defines itself as a social enterprise with the core purpose to build a better future for children, families and local communities through a commitment to excellence in early years education, training and research. It operates 23 nurseries run by 320 staff in economically disadvantaged areas of London serving 1700 children. The organisation started at the turn of the twentieth century as an attempt to reduce infant mortality by helping mothers to learn about better childcare. In 1932 the organisation started a one year nursery training scheme for day students not wanting to enter a residential institution. From the outset, it was able to make a financial surplus, which was used to support other activities such as a clinic to help mothers with breast feeding, an innovative 'roof garden sun room' and diphtheria testing. The innovative activity drew attention from a number of international health educators from 17 countries across four continents. The UK National Health Service, established in 1948, took responsibility for many public health services. However, the

organisation decided to retain its charitable status in order to continue to experiment and pioneer activities related to children's services and nurseries.

There are several core elements that differentiate the organisation from other early years educational providers. Firstly, its social aims go beyond simply caring for children – it has an equitable fee structure, with a range of fees payable to clients depending on their financial ability to pay. Secondly, there is a focus on quality of service provision such as good training for staff delivering the teaching of early years education, quality food in its nurseries, and working with parents and the local community in new service development. Importantly, the organisation's emphasis on being enterprising in order to be less reliant on grants and donations. In this respect, it tends to operate very much like a 'business' that ensures its financial sustainability and attractiveness to institutional funders and investors. It strives to diversify its income sources in order to reduce the risk of income fluctuations due to unexpected external environmental shocks. All its enterprise activities have to cover their operating costs and surplus generation is encouraged, which is then reinvested in the organisation to further its social mission for the wider community development.

The organisation also sees its innovative activities in terms of being able to adapt to different funding opportunities and challenges. For instance, it began to enhance its public service delivery role since the early 1990s by winning contracts from two civil service departments in 1991 and 1993 to run nurseries in the local community. In each of these successful contracts, much time and effort were invested in bid writing, developing the governance and management of the nurseries, and enhancing the quality of their service delivery. Income from public service contracts continued to grow when they won tenders in 2005 from the local council and neighbouring communities to manage their nurseries, and children centres in other parts of the city. Since it adopted a more 'enterprising' approach to generating income, the organisation has developed a portfolio of income sources — comprisingg a mixture of nurseries and children's care centres that are fully funded by government contract fees, those that are purely funded by paid clients or by employers (located in more affluent areas), other nurseries that are funded by a tiered fee structure, and fees-for-training from students on early years education.

'Our organisation is run as a business, but with the right ethos – the staff understand what social enterprise is and they buy into it. We operate on a mixed income model so as to be socially inclusive and financially sustainable. Also, we are a charity so we can raise funds where a business cannot.' (Director, CASE C)

A key challenge that this organisation has faced was in the planning and management of the scaling up of their capacity/capability in service delivery as it responded to a competitive environment. This included new ways to innovate while keeping a common framework of quality and standards. Scaling up its operations was also seen in terms of increasing their social impact with new programmes working on intergenerational equity, recognising the importance of tackling children's poverty through working with parents. Attention was given to ethical procurement with sustainability factors included in the organisation's purchasing of its resources and food for the nurseries. Finally, this case demonstrates that innovation comes about through a combination of various services that cut across boundaries commonly found in the public sector, such as the health, education, training and employment agendas.

Emerging themes

In the search for innovation in public service delivery, third sector organisations with social enterprise activity have the potential to offer alternative models and solutions. There is also evidence that the number of TSOs that consider themselves as social enterprises is growing, although it is not clear whether this increase has been the result of specific governmental policies, wider social changes, the availability of market opportunities or as Teasdale (2011) suggests, the permeation of the social enterprise discourse within the third sector.

Despite the lack of a clear evidence base, there has been a continued and accelerating level of interest from consecutive governments to encourage social enterprise activities in TSOs with assumptions made about their innovative potential. To those on the left of the political spectrum, social enterprises are seen as a means of prioritising social equity goals using enterprise/business mechanisms, while to those on the right of this spectrum, social enterprises are considered as ways of strengthening market mechanisms but with the benefits of maximising social value. Within the 'Big Society' agenda of the current UK Coalition Government, there are a number of policies that are aimed at encouraging an innovative culture among social enterprises in the delivery of public services. These include policies that provide the right to challenge public sector agencies about the delivery aspects of a particular public service, encouraging entrepreneur spin-offs from the public sector, and developing new social investment vehicles such as 'Big Society Capital' to help finance social enterprise start-up activity and innovation.

However, this policy trajectory is based on expectations rather than on empirical evidence from the ground due to the lack of rigorous research in this area (Lyon et al., 2010). There are assumptions made about the innovativeness of social enterprise activity and the third sector more generally. There are many cases of innovative organisations that can deliver new services, often cutting across traditional boundaries whether they are sectoral, disciplinary or government departments (Mulgan et al., 2007). Questions remain over the extent to which the claims of greater innovativeness in third sector social enterprises compared to organisations in the public and private sectors are substantiated (Osborne, 1998). There are further questions concerning the forms of innovation. Moreover, care should be taken not to present too rosy a picture of innovation as it can result in both benefits to and challenges for TSOs.

The case studies in our paper suggest that innovation is a complex process that could be triggered by both internal motives and external environmental opportunities, and that innovation can occur dramatically and on an incremental scale (Bessant and Tidd, 2007). For instance, while there is radical innovation occurring in some of the case organisations (e.g. Case A), this is only part of the picture. The less dramatic changes related to changes within an organisation or the innovations from creating hybrid services through combinations of existing activities (e.g. in CASE B and C) should also be considered (Osborne and Brown, 2005). The framework of Bessant and Tidd (2007) is used below to illuminate the diversity of sources of innovation coming from product/services, process, position and paradigm.

In terms of new *product/service innovation*, each of the case studies shows how they have developed something that is novel for their sector or their situation and was not there before. For example in Case A, ways of improving the employability of disabled people were developed with Summer Job Forums and apprenticeships programmes. In Case B, new courses were developed by highly experienced ecology researchers aimed at a wide range of different audiences. Case C also has innovative products through bringing the various services for child care that are often delivered by different government agencies under one roof. Evidence of *process innovation* can be seen particularly clearly in Case A. Through using a user driven model for co-production and co-creation of services, the user (as key beneficiary) of the organisation plays a leading role in strategy development and management of the social enterprise.

Positioning innovation refers to altering the perspective/benefits of existing products/services to target new users or potential users without the actual service changing as part of an incremental organisational change. This can be seen in CASE B where new markets for its existing training courses were created amongst target audiences who had not used these courses before, building on opportunities arising from political developments such as funding for landowners to set up conservation projects. Similarly, Case C was able to develop positioning innovations to deliver its social inclusive nursery services to benefit a wider range of families (particularly from ethnic groups) who were less willing to use early years educational facilities and preschools.

Social enterprise activity itself is an example of a *paradigm innovation* with voluntary and charitable organisations becoming more enterprising as a fundamental means for funding their activities whilst attempting to preserve their social missions. This can be seen in Case C with the development of a socially inclusive fee structure where wealthier parents are charged more for childcare in order to allow poorer families to have access to the high quality care. Similarly, Case B has developed ecotourism as a new way of conserving the wildlife habitats and complementing their existing training in environmental sustainability.

Conclusion

The case studies have highlighted the challenges that third sector social enterprises could face in the process of developing their innovative capacity and potential. This could come from a lack of investment available to start new projects, the willingness to take risks by senior management teams and trustees, or over reliance on the government for funding. This situation is reflected in the UK where successive governments since the 1990s have sought to provide more funding via public service contracts.

At the same time prescriptive funding processes can result in what DiMaggio and Powell (1983) refer to as institutional isomorphism – where the greater the dependence of an organisation for resources and legitimacy on another entity, the greater the risk that the dependent organisation will change to become similar to the resource-rich one. This is particularly prevalent where commissioners are more risk adverse and tend to be overly prescriptive in the process and outputs requirements in public service delivery. A heightened expectation by dominant stakeholders (such as government funders) on third sector organisations to operate in a businesslike and innovative manner to address

social problems and/or to sustain public policy objectives could potentially raise unrealistic performance targets too early in their organisational development (Chew, 2008). However, the case studies in our paper demonstrate the challenges faced and the potential erosion of social values in charities that are pressured to develop a businesslike approach in their resource attraction in an increasingly competitive environment for fund raising and winning contracts.

There remain questions about what should be done to create or support innovation in public service delivery that also recognises the other traditional social roles of voluntary, charitable and other third sector organisations in advocacy and campaigning for the disadvantaged segments of civil society. On the one hand there is a need for a conducive policy environment that provides procurement and funding opportunities for social enterprises to grow. This is evident in the UK through recent public service reforms that have availed more services that were originally delivered by public sector bodies to other providers in the third and private sectors. However, on the other hand, we have found that innovation is a multi-faceted construct and often emerges in TSOs that are involved in social enterprise activities more as a strategic response to the wider social, environmental and economic imperatives facing these organisations. Further and more comprehensive empirical research would be helpful to understand these dynamics in greater breadth and depth.

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About the Centre

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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 subsector. 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.

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