

Critical Success Factors for Social Enterprises  
in  
Regional economic Development

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## CSFs for Social Entrepreneurship Overview

- Evidenced from research, investment and executive experiences
  - Additional evidence only referenced
  - Agnostic, but experimenting to add value to regeneration
  - Social enterprises CSFs and needs not so different from all SMEs
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- Background and sources
  - Meaning of Social Entrepreneurship
  - Definitions and Classification of social enterprises
  - Relationships to other sectors and regional development
  - Characteristics of Disadvantaged areas
  - CSFs for social entrepreneurs
  - Examples
  - Governance challenges
  - Finance
  - Regional development
  - Conclusions
  - Recommendations for interventions

## CSFs for Social Entrepreneurship Background Experiences and Sources

HIDB social development activity  
Central Regional Council and Stirling Social Enterprise unit  
Birmingham City Council Economic Development Department and Community Development  
Planning Exchange conference on Social Entrepreneurship 2000  
Aston Reinvestment Trust Key Loan Fund implementation and Evaluation  
Merlin Venture Limited  
Rochdale Community Economic Development action plans  
West Midlands Social Economy Partnership action plan  
NEF/BNA scoping study for AWM on access to finance  
NDC community leadership research with de Montfort University for JRF  
Centre for Environmental Studies research on new enterprises creation and early development  
Association of Independent Businesses and Small Business Research Trust research  
Scottish Enterprise Foundation programme delivery

ESRC/Triodos study 2004  
CAF/Manchester University study  
Middlesex Univ/SBS study 2001- Researching Social Enterprise

## CSFs for Social Entrepreneurship

### Entrepreneurship – concepts and challenges

- Entrepreneurship is an outcome
- Entrepreneurship is a rare event
- Social entrepreneurship is a rarer event
  - and not always evidenced through a business
- Entrepreneurship in disadvantaged areas is a rare event
- Social entrepreneurship in Disadvantaged areas is a rare event
- Survival and growth of businesses are rare events
- Little entrepreneurship in many existing businesses
- Many existing SMEs are not profit maximisers
- Entrepreneurship, enterprise, intrapreneurship and business management require to be distinguished in targeting interventions

## CSFs for Social Entrepreneurship Definitions and classification 1

- Enterprise Progression Model (separate overhead)
- Community Economic Development Model (separate overhead)
- Business Hierarchy by social objectives (separate overhead)
- There are definitional and functional overlaps but no identity between:
  - Social entrepreneurship
  - Social enterprise
  - Social economy
  - Voluntary and Community sector
  - Social inclusion
  - Social capital
- Increasing expectations that the VCS would and could develop social enterprise activities may be unrealistic (CAF, IIPs)

## CSFs for Social Entrepreneurship Definition and Classification 2

- The current wide and sometimes conflicting range of social enterprise definitions reflects a real diversity of activity in practice (CAF, WMSEP, ESRC)
- The diversity within the social enterprise and “not for profits” sector is part of the challenge for SBS (Middlesex)
- ERRC/Triadodos identify a spectrum from private sector (e.g. waste) to public (e.g. Care)
- Business and entrepreneurial models must therefore also have a wide range of characteristics and contexts
- The business oriented approach to social enterprise development has led to gaps between organisational capacity and the financial, advisory and training support available (CAF)
- BUT this holds for all enterprises, and especially in disadvantaged areas
- The differences between the motives of social and private sector entrepreneurs is an important starting point from which many of the behavioural differences stem (Middlesex) - But little difference in practice (ART, YF KLF)
- The locality focus that is typical of social enterprises is the thread that connects them to disadvantaged neighbourhoods (Middlesex) – But restricts markets, business growth dynamics, and untrue for large VCS organisations
- **Classification is more useful than definition for appraising socio-economic impacts, financial needs and relevant developmental interventions**

## CSFs for Social Entrepreneurship

### Relationships to other sectors and economic development

- Private, Public and Voluntary – hybrids with dynamic options as to balance
- Private Markets and Public procurement are what social entrepreneurs work with
- Reflexive causality with social capital (Middlesex, CED Model)
- Adding value or displacing for-profit SME potential?
- A driver to reducing costs and wages in the local economy?
- Business life cycle dynamics (Enterprise Progression Model)
- Transitions between social enterprise and for profit structures and motivation (CED model)  
(Most SME start-up owners want to create a job for themselves)
- Alternatives for social entrepreneurs – and any entrepreneur?
- Community leadership an alternative model to social enterprise
- representative, administrative and political rather than responsible, entrepreneurial, and business?
- Needs of or for social enterprises and for profit enterprises in disadvantaged neighbourhoods?
  
- Match with the characteristics of disadvantaged areas

## CSFs for Social Entrepreneurship

### Characteristics of disadvantaged areas

- Failure to establish, attract or retain money making projects
- Leakage of expenditure, profits and investment
- Low asset value, low asset ownership, low discretionary spend
- No longer attractive to private sector investors or developers
- Out-migration of most skilled and dynamic people
- Objective is to restore market forces in disinvested Communities - to tackle disconnection
- Need demand rather than supply interventions
- Enterprise most needed where least likely and poorest resourced (Alan Twelvetrees)
- Redlining effects for individuals' and businesses' costs and decision making
- Business support can reinforce economic cycles
- Banks rarely recognise entrepreneurs and opportunities
- Need to raise aspirations, but manage expectations
- Professionalism can be a barrier to regeneration
- Are we dealing with the needs of or for social entrepreneurs and SMEs?
- Current systems oppose entrepreneurial progress.
- Need urban practitioners more than professionals - LA best at delivery, not development

## CSFs for Social Entrepreneurship Critical Success Factors 1

*Developed from PE seminar May 2000, with acknowledgements to Nicholas Falk, Joan Shapiro, Andrew Mawson, Bernard Greaves, Ravi Sahota, Tom McAughtrie, Alan Twelvetrees and experiences with CVHAT, ART and Rochdale CED.*

- Characteristics; socially marginal, some community works, alternative lifestyles, mis-qualified graduates, (some) redundant executives, employment history, working with people, relevant experience
- Champion and driving force (vision and persistence)
- Response to needs without profit motive
- Minimise and control risk
- Start with small projects as evidence of successful progress
- Government programmes should underwrite risk (USA SBA, LGS)
- Celebrate successes
- Vision more than business plan
- Apply business techniques - necessary but not sufficient condition
- Ignore structures and back people
- Maintain balance of social/economic indicators and financial measures to evaluate performance
- Plan and invest for the next stage of development
- Plan succession of founder early
- Engage some business interests in the process

## CSFs for Social Entrepreneurship Critical Success Factors 2

- Regeneration needs to be tackled "inside out" not "bottom up"
- Allow multiple outcomes from development processes
- Intermediaries that re-arrange resources (fixers, enablers, go-betweens)
- Belief that one can change things (best not to know too much of the constraints)
- Balanced teams because many different skills required (group and personal dynamics and development required)
- Balance short term and long term
- Most effective if legitimised by local organisational framework (but not rules based organisations)
- Adapt what works best and seen elsewhere (information and travel required)
- Avoid the lowest common denominator approach
- Learn by doing
- Right idea at the right time - "Chance favours only the mind that is prepared"
- Quality, criteria for selection, rigour of appraisal and management, persistence of aftercare

## CSFs for Social Entrepreneurship Case Studies

Identification of shortfalls, barriers and problems from operational experiences:

- Aston Reinvestment Trust investments – risks and rewards
- Key Loan Fund cases - from Betel to Handsworth Training Foundation
- Merlin Venture Limited – community participation on Board
- Stirling pallets business – time for working with the private sector
- “the Public” in West Bromwich – economies of scale VS entrepreneurship
- Rochdale CED action plans – displacement by public agencies funding drivers
- Groundwork Trusts – community benefits VS community participation
- Large asset based CDTs – assets VS liabilities

## CSFs for Social Entrepreneurship Governance

- Entrepreneurship vs boards and representative committees
- Staff vs Directors/Trustees responsibilities
- Sustainability vs Depth of Reach impact
- Revenue projects vs balance sheet equity and core funding (or enabling funding)
- Costs containment vs sales growth
- Income mix constraints and output targets

## CSFs for Social Entrepreneurship Finance

- Unfair competition and State Aids rules
- Time to Deal and total transaction costs
- Core funding/equity problem – patient capital
- Income mix and accounting
- Lack of surplus on public contracts
- Separate development capital (Futurebuilders, regional Investment Infrastructure Programmes)
- Under-funding vulnerability (as all SMEs)
- Additional Social Enterprise Barriers (BOE)
  - Lack of available security and personal finance stake
  - Use of unfamiliar organisational structures and grant funding streams
  - Uncertainties about income streams, contracts and trading potential
  - Identifying market opportunities in advance (public and private)
  - Lengthy arrangement times
  - Some elements of credit and behavioural scoring
  - Reputational risk to lender of enforcement
  - Low levels of investment readiness among some social enterprises
  - Lack of developmental support

## CSFs for Social Entrepreneurship Regional Development Relationship

- Additionality
- Competitiveness and productivity
- Business churn and displacement
- Enterprise strategies
- Clustering contribution
- Social inclusion
- Disadvantaged group and area targeting
- Needs of or for social enterprises?
- Cost effectiveness of interventions to promote Social Enterprises
- General Business Development and investment readiness gap
- Who should deliver? SEU, BL, RDA, LSP, VSCs, IIPs?

## CSFs for Social Entrepreneurship Conclusions

- Social entrepreneurship has similar CSFs to for-profits – and then some more challenges!
  - Recognise different drivers – Market, Policy, Means, Ends (WMSEP)
  - Wide classification suggests wide range of interventions relevant
  - Potential to contribute to RDA Tier 3 targets – but not as great as claimed
  - Need to address the dynamics of entrepreneurship, enterprise, business change, opportunities
  - Higher cost of social inclusion targeting suggesting patient capital needs greater
  - No absolute structures and probably continual change (LEDI 17 growth sectors)
  - Markets and Investment culture to replace grant, outputs, bids – transfer risk and trust
  - Lack of general enterprise development support constrains social enterprises opportunities
  - Entrepreneurial intermediaries and brokers required
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- Needs of or for SMEs in regional development?
  - May not be cost effective or viable – but neither are many businesses
  - Opportunities for learning and empowerment for disadvantaged groups

CSFs for Social Entrepreneurship  
CSFs for effective interventions in regional development 1

- Provide strategic vision for area and leadership
- Engage commitment of senior personnel in all agencies
- Remember that in USA 57% believe there are self-employment opportunities c.f. 16% in UK.
- Breakdown the anti-enterprise culture in education
- Group and individual capacity building
- Pool of volunteers
- Potential management support pool (City Pride)
- Visits to and information on successful projects and social entrepreneurs elsewhere
- Actively seek replicability and transfer (N.B. technology and process transfer as significant for SMEs as innovation)
- Support networks and information provision
- Training should be "learning by doing" as far as possible
- Partnership should be action not consultation based
- Make interfaces easier for businesses
- Workspaces and Incubators in refurbished buildings
- Buy services from social businesses - allow a wide range of different contractual relationships

CSFs for Social Entrepreneurship  
CSFs for effective interventions in regional development 2

- Stimulate local demand more than supply (BV/EU17)
- Demand is more than asking people what they want - wants/aspirations/needs/policy progression -supply should stimulate demand (Say's Law?)
- Develop from within existing community/voluntary groups
- Facilitate business partnership in actions more than consultation
- Recognise business partners over range of scales for different purposes: Multinationals/Large local independents/local SMEs/local developers/micro-firms
- Capital endowments to promote independence and sustainability
- Recognition of sweat equity in investment appraisal
- Develop partnerships with commercial banking
- Develop socially responsible banking and investment (e.g. CFIs, ICOF)
- Interest rates are never the issue - access to credit is the problem and solution (South Shore bank, OECD, ART, 3i)
- Minimise financial and economic displacement through appraisal criteria
- Development and Capital funds for development trusts

CSFs for Social Entrepreneurship  
CSFs for effective interventions in regional development 3

- Allow some to fail
- Recognise that the development process is not linear and neither are outcomes - be prepared to let go.
- Learn from mistakes (requires transparent and honest disseminated evaluations) c.f. CC/SRB/EUSFs do not allow mistakes
- Avoid "worst first" and "poorest of the poor" approaches (South Shore vs. SEU?)
- UK equity concept is wrong and compounds regeneration problems
- Do not under-fund, withdraw support too early or encourage to operate below critical mass.
- Promote cross-sector training and learning together
- Identify potential benefits for all local partners.
- Provide reality statements on participation, decision making and outcomes.

## CSFs for Social Entrepreneurship

### CSFs for effective interventions in regional development 4

#### Quotations

- "Regeneration through a hand up rather than a hand out"
- "Entrepreneurs are crooks that have not been caught yet."
- "Professions are conspiracies against the laity."
- "Are the socially excluded better helped by a social worker or a social worker's salary?"