

**“The most supportive environment in the world for
social enterprise?”**
Social Enterprise in Scotland

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1. Introduction

There are numerous accounts of policy frameworks associated with country-level support for social enterprise activity. (Haugh, 2012) However, explanations for *when*, *why* and *how* policy interventions in support of social enterprise have been adopted have been, to date, much more thin on the ground.

This paper aims to contribute to addressing this perceived gap by presenting the case of Scotland, recently hailed by First Minister Alex Salmond as “the most supportive environment in the world for social enterprise.” (Ainsworth, 2012)

In line with Social Origins Theory, (Salamon et al., 2000) which recognises the explicit complexities of the Third Sector’s ‘embeddedness’ in broader social, political, and economic processes (Seibel, 1990), this paper takes a historical perspective, and then an analysis of more contemporary policy developments which help to explain divergences from England since Scottish devolution in 1999. In particular, the paper draws upon Historical Institutionalism (Steinmo et al., 1992) in an attempt to explain how such a ‘supportive environment’ might have come about. We also look critically as to whether the conditions are as favourable for social enterprise in Scotland as has been claimed. By considering such issues – looking at, in turn, *when*, *why* and *how* the conditions for social enterprise in Scotland have emerged – we attempt to contribute to the ongoing international debate concerning the importance of the policy environment to fostering the conditions for social enterprise activity not only to emerge, but to thrive.

2. Historical Institutionalism as an approach

Historical Institutionalism is a method that uses institutions in order to find sequences of social, political and economic behaviour and change across time, and stems from two

major intellectual developments in the 1970s and 1980s (Peters et al., 2005): firstly, the renewed interest in the state as an analytical concept (Evans et al., 1985) following the rapid expansion of the public sector in western democracies after the second world war; and secondly, the analytical significance ascribed to institutional arrangements, both formal and informal, in western democracies for explaining behaviours and policy choices. (Hall, 1986; March & Olsen, 1984)

Before the development of Historical Institutionalism, institutions were generally treated as those governing formal rules of behaviour (e.g. the state, the law) but historical institutionalism has allowed a much wider definition of institutions, encompassing both formal administrative units and arrangements, and informal rules and legacies associated with particular institutions or institutional arrangements within the state, or between the state and society. (Peters et al., 2005) One of the implications of this change in approach – from “old institutionalism” to “new institutionalism,” within which Historical Institutionalism fits – is that agency is able to be ascribed to all kinds of social groups and behaviours, not just elites. Historical Institutionalism is therefore an appropriate framework to approach the development of social enterprise in Scotland. In common with many case studies in Historical Institutionalism much historical detail has been deliberately sacrificed in order to identify general causal patterns, (Thelen, 1999) allowing broad explanations to be developed concerning *why* and *how* social enterprise has emerged within a given cultural, historical and political context. This is consistent with the theoretical approach underpinning the influential international comparative work of the Johns Hopkins Comparative Nonprofit Sector Project investigating the ‘social origins’ of civil society (Salamon et al., 2000) and also partly in response to a general call from the likes of Mason et al., (2007) for approaches from new institutionalism to be brought to social enterprise research.

3. The 'when': the roots of social enterprise in Scotland

Spear (2001) suggested that the emergence of social enterprise in the UK cannot be properly examined without an historical perspective explaining how the whole Third Sector developed from the times of the 'dark satanic mills' and this is especially true of Scotland. However, gaining a more rounded perspective requires a fairly nuanced appreciation of the culture and history of Scotland and its relationship within the UK, particularly since the establishment of the Scottish Parliament in 1999.

Since Aiken (2006) described the social enterprise field in the UK as 'lumpy' it has, if anything, become 'lumpier' as Scottish devolution has made the policy landscapes in Scotland and England look increasingly different over time. In fact, it has become increasingly inaccurate in recent years to talk of 'UK policy' or the 'UK position' when referring to the Third Sector or, indeed, to a great many areas of socio-political discourse.

However, just when the seeds of the social enterprise movement in Scotland were laid down is debated. Mayo et al (2001) provide a brief examination of several periods that are often overlooked in historical accounts of the growth of social enterprise in the UK, from the earliest craft guilds that arose many centuries before the Industrial Revolution, referring to the work of the green philosopher Ivan Illich and the labour historian EP Thompson who both chronicled the culture of mutual aid and popular enterprise. They also point out that social economic historians Karl Polanyi and RH Tawney identify that the concept of socially 'just enterprise' represented by those earliest craft guilds "pre-dated the modern 'value free' and amoral nineteenth century understanding of the free market by over eight hundred years." (Mayo et al., 2001, p. 2)

Two periods that are recognised as being especially important in Scotland's history, and of relevance to the history of the social enterprise movement in Scotland, are the Scottish Enlightenment, and the Industrial Revolution. The former is the period for which Scotland is recognised, most notably in the fields of moral philosophy and political economy, as a "singularly important centre within the celebrated eighteenth-century European revival of learning" (Allan, 1993) which both shaped, and was characterised by, a Scottish tradition for humanist values. This tradition undoubtedly helped inform the forerunners of modern social enterprise structures, such as workers' cooperatives, which can trace their beginnings to the Industrial Revolution, in which Scotland played a critical early role, and in particular to the work of early industrialists such as Robert Owen.

3.1 The Scottish Enlightenment

Following the Act of Union with England in 1707 and the birth and rapid expansion of the new British Empire, Scotland's place in the world was altered radically. Arguably the poorest country in Western Europe at the start of the 18th Century, (Herman, 2003) Scotland was able to turn its attentions to the wider world without opposition from its much larger and more powerful neighbour. With the intellectual benefits of having established Europe's first public education system since classical times, the Scottish Enlightenment was an unprecedented period of intellectual, cultural, scientific and technological development in which modern Scottish ideas were exported throughout the world. (Buchan, 2007) The enlightenment ideas of scientific empiricism and practicality were coupled with a unique brand of humanism, exemplified in the work of David Hume, in which the chief attributes were held to be improvement, virtue and practical benefit for both the individual and society as a whole. (Herman, 2003) These

ideas were deemed so remarkable that Voltaire was reputed to have exclaimed that "we look to Scotland for all our ideas of civilization." Adam Smith, a Professor at the University of Glasgow, published his ethical and philosophical treatise *The Theory of Moral Sentiments* in 1759 and his *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776, the same year his friend and mentor Hume died, advocating the division of labour in the production process and shaping modern political economic thinking.

3.2 The Industrial Revolution

As the Industrial Revolution moved on apace from its birthplace in northern England, Scotland began to shift from a largely rural economy with small scale craft-working to more specialised and heavier industries. This was powered first by water, then by steam but also by Scotland's expertise in education, commerce and banking. A vital stepping stone to markets such as the New World, developments in agricultural technologies, and, most importantly, an abundance of raw materials, all provided the conditions for industry, and especially heavy engineering, to flourish in the central belt of Scotland. The period saw an influx of mass manufacturing methods, applying new technology largely imported from England, and the growth of the 'factory system,' particularly in textile manufacture, encouraging labour and social movements to flourish as "defensive reactions to the harsh conditions." (Borzaga & Galera, 2012) The world's first documented consumer cooperative (BBC, 2011) was founded in 1761 when local craftsmen formed the Fenwick Weavers' Society in a barely furnished cottage in Fenwick, East Ayrshire. Pioneering cooperative storekeepers were found in Scotland certainly from 1769 onwards (Harrison, 1969) some 75 years before the Rochdale Pioneers – who are generally considered to be the immediate forerunners of what is

now the 'social enterprise movement' (Pearce 2003) – set down their famous principles in 1844 and certainly well predates the 'geological upsurge' (Defourny et al., 2010) of the cooperative movement across many parts of Europe. Several Scottish cooperatives from that period, such as the Galashiels and Hawick Cooperative Societies founded in 1839, still trade today as part of The Cooperative Wholesale Society, still the world's largest consumer coop. (Cowe & Williams, 2000)

The period was also marked by the work of the single most important figure that Scotland can lay claim to in the history of the social enterprise movement: textile manufacturer Robert Owen, the utopian socialist who owned and ran the mills at New Lanark as a model industrial community. Owen was a pioneer in improving living and working conditions for the workers in all manner of ways, but it was his opening of a store where people could buy goods of sound quality at little more than wholesale costs, passing on the savings from the bulk purchases of the goods to the workers that earned him the sobriquet of father of the cooperative movement. (Cowe & Williams, 2000) The term 'social entrepreneur' was apparently coined to describe Owen and those who subsequently adopted his management practices. (Banks, 1972)

Historical institutionalism does not accept that history necessarily develops in a straightforward, linear fashion. The most basic concept relevant to historical institutionalism is path dependence, which expresses the idea that outcomes at a 'critical juncture' (Collier & Collier, 1991) trigger feedback mechanisms that reinforce the recurrence of a particular pattern into the future. (Thelen, 1999) The role of culture, it is argued, helps to define such focal points. (Bates et al., 1998) The Scots' culture, shaped by a particular brand of humanism, the near universal access to education which was unique in its time, allowed the ideas of Scottish philosophers such as Hume and

Smith to flourish all over the world at the time of the Scottish Enlightenment and shape modern political and economic thinking. Furthermore, these traditions were able to be brought to bear in reaction to the social upheaval caused by the Industrial Revolution in the shape of the early social enterprise movement, encouraging institutions such as co-operatives, exemplified in the early work by Owen, to come about.

3.3 The curious case of ICOMs and Worker Co-ops

These early influences can be certainly be seen in more recent ancestors of modern social enterprises in the UK, such as the Industrial Common Ownership Movement in the 1950s and Worker Cooperatives in the 1970s and 1980s, which are often overlooked in historical accounts. ICOM's best known early example is the specialist chemical company Scott Bader in Wellingborough, Northamptonshire which was gifted to its employees in 1951 by its founder, Ernest Bader. Funding for the encouragement of these structures was provided by the state in the form of the Industrial Common Ownership Act 1976 which provided £100,000 seed funding to the Industrial Common Ownership Movement (ICOM) and £50,000 to the Scottish Cooperative Development Committee (SCDC). The Act also set up a £250,000 rotating loan fund managed by Industrial Common Ownership Finance Ltd. (ICOF). The Cooperative Development Agency Act 1978 enabled grants to the Cooperative Development Agency. Eventually, in 2001, ICOM merged with the Cooperative Union to form Cooperatives UK, thus merging the Worker Cooperative and Consumer Cooperative sectors. Around 60 local Cooperative Development Agencies (CDAs), supported by local authorities, provided start-up assistance, resulting in a peak of some 1,400 Workers' Cooperatives in the late 1980s. (Spear, 2006) However one of the key difficulties that Worker Coops faced was that they did not have the support of the wider Labour Movement and neither,

curiously, of many in the Cooperative Party, which has been a 'sister party' to Labour for all but the first ten years of their existence. The main objection to such structures has always, seemingly, been ideological: in the Marxist/Socialist doctrine, the only (conceivable) alternative to public provision being privatisation. Co-ops and other Third Sector structures which do not fit into such neat boxes are thus looked upon with suspicion as somehow 'paving the way' to privatisation. (Defourny & Develtere, 1999) describe the basic political issue which arises from the Third Sector in their context of Marxist analysis, identifying that associationist socialism played a fundamental role in the utopian ideas of Owen, King, Fourier, Saint-Simon and Proudhon. Until 1870, they claim, the theorists of associationist socialism were, above all, promoters of producer co-operatives and their views dominated the discourse of international workers movements to the extent that the terms 'social economy' and 'socialism' were almost rendered synonymous with each other. (Defourny & Develtere, 1999) This did not last, however: despite Marx's sympathies with the co-operative concept, it was his collectivist theories that eventually won through. (Cummins, 1980) Thus a growing proportion of the workers' movement denied the social economy a central role in the process of societal transformation. At best it remained "as it did for Jean Jaurès, a way to improve the lot of the poorest and educate them" and as "a powerful tool for pooling resources and organising propaganda for the purposes of political combat." (Defourny & Develtere, 1999)

The work of Antonio Gramsci attempts to rectify this rather negative view of the Third Sector in Marxist doctrine. Gramsci locates civil society in the political superstructure rather than the socio-economic base of the state and, rather than posing it as a problem, views this as the site for problem-solving (Edwards, 2009) His views were echoed by William Beveridge, the architect of the UK welfare state. It is argued elsewhere (Roy et

al., 2013) that, from their position within the Third Sector, social enterprises can often work at the interface between communities and the state as specialist providers, innovators and monitors of the sort that Beveridge envisaged, (Oppenheimer & Deakin, 2011) providing a pluralist perspective and moderating the centralist and bureaucratic tendencies of statist social democracy. (Maxwell, 2007) But, despite the work of Gramsci, and that of Beveridge closer to home, most Third Sector concepts have continued to maintain a subordinate role in political analysis. Because of its role in shaping political thinking in Scotland and certainly the development of the Labour Party at the start of the 20th Century¹, the development of Marxist philosophy can certainly be viewed as one of these ‘critical junctures’ (Collier & Collier, 1991) that set a specific trajectory of political and institutional development.

It is worth noting, and of interest to Historical Institutionalists, who are as often concerned with why certain paths were *not* followed, that civil society concepts would likely have played a much great role in what followed had the collectivist anarchist philosopher Mikhail Bakunin won the Communist Party leadership contest against Karl Marx in the First International at the Hague in 1872. (Rothschild, 2009) Bakunin had long argued for a completely decentralized system in which workers would co-own and self-manage their own workplaces, forming federations when needed: the complete opposite, in other words, of the centralised state system.

4. The ‘why’: the socio-political culture of a “dis-united Kingdom”?

In the United Kingdom, like other states with multiple “nations”, such as Canada or Spain, we observe a complex political order with multiple sites of sovereignty, and

¹ James Keir Hardie, a Scottish socialist and labour leader was elected as the first member of the Independent Labour Party to the UK Parliament in 1892, and became the UK Labour Party’s first leader in 1906.

asymmetrical constitutional arrangements. (Keating, 2001) Scotland shares a great many aspects of culture and history with their more populous and powerful neighbour, but dissatisfaction with power arrangements that were not seen to be representative of the cultural and political differences of Scots led to calls for change. Constitutional changes to the UK brought about at the end of the twentieth century and the establishment of the Scottish Parliament meant that a great many areas of policy, including those relating to the Third Sector, were devolved from London to Edinburgh. (Alcock, 2012) Increasing policy divergence between Scotland and England in recent years has meant that, arguably, it is increasingly inaccurate to talk of a “UK position” in relation to social enterprise policy.

4.1 Political Behaviour and the notion of ‘Democratic Deficit’

The political behaviour of Scotland and the north of England started to diverge considerably from the south in the 1950s (Curtice, 2002) coinciding with a burgeoning of social democratic ideals across Western Europe at that time. The people of Scotland are naturally more inclined towards social democratic values than many parts of England, particularly the populous and wealthy areas of London and the south-east. (McCrone & Keating, 2007) This served, in Scotland at least, to enforce a continuation of a perceived ‘paradoxical’ or ambivalent relationship that the Third Sector has had with social democracy: as the state expanded in the mid 20th Century as a solution to society’s ills, this acted to ‘usurp’ the role that charities had been filling since at least the Industrial Revolution. (Maxwell, 2007)

The 1950s and 1960s saw a marked decline in parliamentary representation of the Conservative Party in Scotland, coupled with rapid de-industrialisation and resultant economic, social and political dislocation which continued throughout the 1970s and

80s, emphasising the perception of a 'democratic deficit': at a UK level Scottish political representation was regarded as marginalised, with a distinct lack of Scottish Conservative MPs and a broad perception of anti-Scots bias, particularly during the Thatcher years. (Keating, 1996) The combination of neo-liberalism and social authoritarianism embraced by both Thatcher and Major were deeply unpopular in Scotland. They were viewed by many Scots as violating not just the welfare tradition of the 'post-war settlement' but also deeper conceptions of community and solidarity, which have long been thought of as integral components of Scots culture. (McCrone & Keating, 2007)

4.2 The growth of community businesses

It was from the political turmoil of the late 1970s that community businesses emerged, an idea that originated in rural Ireland to stem the migration of mainly young people to the towns and cities elsewhere. Multi-functional community co-operatives were established to create jobs that could be filled by local people and provide services to the community. The Highlands and Islands Development Board, founded in 1965 to regenerate the socio-economic aspects of the isolated and sparsely populated areas of the highlands of Scotland in the north and island communities predominantly to the west of the country, were attracted to the Irish model and imported the concept into small rural communities. Community co-operatives were often established with seed-core grant funding matched with share capital collected from local residents allowing small businesses such as heritage centres, salmon hatcheries, visitor cafes, and holiday bunk houses to become established. The idea spread thereafter to the lowland urban areas and some early work just outside Glasgow led to the creation of a community business model based upon local communities with open membership to residents

living in the community and voting on a management committee of local people. (Pearce, 1993) These community businesses flourished in the early 1980s as local authority services faced rapid cuts and unemployment reached record levels. In Scotland, the Scottish Office was able to prioritise Urban Programme funding to support the development of community business and each area in Scotland was provided with a community business (or enterprise) support unit. Some of these original community businesses still continue to trade to this day, some doing particularly well. However in the early 1990s, following several widely publicised business failures in the community business sector and one or two less than flattering evaluations, the idea of "community business" became unpopular with local authorities and the Government. It was around this time that the term "community enterprise" became more widely used (Pearce, 1993, 2003) and these "community enterprises" gradually formed part of what are now called social enterprises. (Kay, 2003) Urban Programme funding was not utilised to develop community businesses to the same extent in England and thus their growth there was less impressive. Interestingly, the term "community business" has been making a comeback in recent times in relation to the development trust movement in Scotland.

4.3 Policy Divergence from England

Labour's UK election victory in 1997 brought with it the promise, fulfilled through a referendum, of the establishment of a devolved Scottish Parliament with tax varying powers in 1999. For the first time since the Union of Scotland and England in 1707, Scotland had its own distinct political institution, in which who held power was not determined by the outcome of elections held across the United Kingdom as a whole, but rather by the results of elections in Scotland only. (Curtice, 2006) Consequently, most

areas of policy (excepting, crucially, welfare) that touch upon the Third Sector, including support for social enterprise, were devolved to the new Scottish Executive. Up until this point, the policy choices available were heavily constrained by prior patterns of historical and institutional development shaped largely by the UK Government in London. In theory at least, the new Scottish Parliament was not constrained by the same 'path dependency' and were able to craft a new approach to a whole range of policy areas.

Although this period has been described as one 'hyperactive mainstreaming' of Third Sector policy in the UK, (Kendall, 2009) more rapid and extensive policy development than at any time since the early 20th century, it is reasonable to suggest that the concept of social enterprise did not immediately permeate the political mainstream to any significant extent, despite a dedicated Social Enterprise Unit being established within the UK Department of Trade and Industry in 2001. Jones and Keogh (2006) remind us that shortly after he was first elected as Prime Minister, Tony Blair declared his personal support for social entrepreneurs. He then went on to include policemen and schoolteachers, as well as community volunteers and activists, in his discussion about who social entrepreneurs were. This is symptomatic of the ambiguity that, arguably, still continues to dominate the discourse around social enterprise in the UK. (Teasdale, 2011)

Furthermore, most commentators have tended to write about Third Sector politics and policies developed by the UK Government as continuing to extend across the UK, or at least establishing a norm from which the other countries may, or may not, depart which, as Alcock (2012) points out, is simply not true and, arguably betrays a rather narrow and simplistic view of political devolution. Devolution has allowed, in most matters, the

devolved administrations to take their cue from London when it suits them, to ignore them when it does not, and to often pursue a more innovative pathway, unencumbered by the same problems of scale and complex layers of delivery that can inhibit the much larger and more populous nation of England.

But until 2007, when the Governments in both London and Edinburgh were of a similar Labour hue (albeit Labour were in coalition with the Liberal Democrat Party across two Scottish parliaments), the policy differences were, albeit with one or two notable exceptions, such as up front tuition fees for students and free personal care for the elderly, (Mitchell & Jeffrey, 2009) fairly minor. This was despite the relative hostility of Scots toward Blair's 'New' Labour's neo-liberal leanings and market-oriented reforms. Although there was seemingly an increase in political support and understanding within politicians' minds for the development and strengthening of the social economy in both England and Scotland, in the period to 2007 the Scottish Executive took a more traditional (or "old") Labour stance, and support for the social economy was more muted even than it was in England. This highlights one of the issues surrounding the development of the social economy: that in its development there is seen to be a shift of resources away from the public sector into the Third Sector. This is not universally welcomed by those politicians and bureaucrats – traditionally on the left – who support a strong, command economy typified by the public sector. (Kay, 2003)

One consequence of this is that there has not been the 'mixed economy' of provision and thus fewer opportunities for private or Third Sector providers to become partners with the state or providers of publicly-funded services in their own right in Scotland. In other words the 'social welfare market' which (Aiken, 2006) identified as being a characteristic of the UK landscape, is manifestly less developed in Scotland than in

England. This is most noticeable in Scotland's largest city, Glasgow – a Labour stronghold – where a sizeable portion of local services, even where they are not delivered directly, are delivered by ALEOs (Arms' Length External Organisations) which are, to all intents and purposes, subsidiaries of the Local Authority and not social enterprises.

The election of the Scottish National Party (SNP) to power in elections to the Scottish Parliament, first as a minority administration in 2007, then as a majority Government in 2011, has given them a mandate to seek a referendum for Scottish independence, scheduled for 2014. Although a dedicated strategy for supporting social enterprise was introduced in the last throes of the last Labour-led Scottish Executive in 2007 (Scottish Executive, 2007) support for the Third Sector from the new SNP-led Scottish Government² became much more explicit. Their Enterprising Third Sector Action Plan 2008-2011 (Scottish Government, 2008a) was designed to promote an enterprising and thriving Third Sector in Scotland with some £93million for the sector committed over the lifetime of the strategy.

From relatively little policy divergence in the first decade or so of the Scottish Parliament, this became increasingly marked over a very short period of time, as the Cameron led Conservative/Liberal coalition came to power in Westminster in 2010. Cameron embarked upon a further dismantling of the public sector in the name of austerity cutbacks. His *Big Society* initiative was (at least initially) intended as an endorsement of positive and proactive roles that voluntary action and social enterprise could play in promoting improved social inclusion and 'fixing Britain's broken society,' (Alcock, 2010) presumably because social enterprises possess characteristics that

² When the Scottish Nationalists came to power in 2007 they renamed the Scottish Executive the Scottish Government

governments and corporations seek – credibility, expertise and public support. (Paton, 2003)

However the notion of the Big Society has never gained a foothold in Scotland: it has been dismissed as having no impact (as one would expect, given most of the policy areas it touches upon are devolved) and of little relevance to Scots. (Third Force News, 2012) Instead, the Scottish Government has focused energies upon staving off the worst impacts of the cutbacks.

5. The 'how': policy instruments and the 'ecosystem' for support

Support from the Scottish Government for the concept of the 'enterprising Third Sector' has manifested in various policy instruments designed to encourage this, but bolstered by a fascinating array of different 'layers' of support institutions that have been built up over many years. Establishing the exact scale of the social enterprise movement in Scotland has proven to be problematical, as we shall see, but a wide variety of social enterprises and support bodies all contribute to what could be described as a sustainable 'ecosystem' of support for social enterprises that has attracted attention from around the world.

5.1 Ready for Business?

A new £1.5m Ready for Business programme launched in December 2011 by the Scottish Government sought to: improve the profile of Third Sector suppliers with the 'public sector buying community' and thereby open markets; strengthen understanding and application of Community Benefits in Procurement; and encourage routine use of co-production in the design of public services and development of Public-Social Partnerships. However, apart from very large 'national scale' exercises, by far the majority of public sector procurement is undertaken at local government level, over

which the Scottish Government has only limited control and influence: Local Authorities have become much more autonomous in terms of how they allocate expenditure to local priorities since the SNP came to power (under what was known as the Concordat Agreement). Despite the best intentions of the Scottish Government to open up markets to the Third Sector, in practice this is an area of which they have limited control, with the consequence that results are 'patchy' geographically. As a consequence this means there is a lack of a 'mixed economy' of providers in many areas, notably in the delivery of health services. However, the introduction of social enterprise into English healthcare has simply been perceived by many as simply a 'smokescreen' for allowing large private providers into the market. (Roy et al., 2013) Indeed, the former UK Secretary of State for Health faced criticism (Hampson, 2010b) from elements of the social enterprise movement in London for adopting too broad or 'elastic' notion of social enterprise, one that would be much closer to the US 'earned income' or 'social innovation' schools of thought (Defourny & Nyssens, 2010) than Scotland is – and England has been until recently – comfortable with. Scottish thinking is thus much more aligned with mainland Europe on the subject of social enterprise than many parts of England.

5.2 Community Benefits in Procurement

In Scotland much has been made of the potential for social enterprise to benefit from the introduction of Community Benefit Clauses (CBCs) into local authority planning decisions. CBCs are contractual requirements which deliver a wider social benefit in addition to the core purpose of the contract, such as in relation to targeted training and employment outcomes. (Macfarlane & Cook, 2008) The highest profile example of this has been Glasgow City Council's widespread adoption of CBCs into its 2014 Commonwealth Games infrastructure procurement process. This has resulted in

Glasgow based Unity Enterprise³ being awarded a contract to provide the onsite catering for those working on several of the Games' construction sites, providing a number of people with mental health difficulties a job, in what is one of Glasgow's most deprived communities. (Naysmith, 2010)

5.3 The Infrastructure for Support

Scotland has a complex and highly developed array of support organisations to encourage the growth of social enterprise in various ways. Simply restricting the focus on support for social enterprises (never mind the rest of the Third Sector) reveals: Social Enterprise Scotland⁴ (formerly the Scottish SE Coalition) which brings together social enterprises and their supporters to lobby on their behalf; SENSCOT⁵, the Social Entrepreneurs Network for Scotland, which maintains a number of geographic and thematic networks to help social entrepreneurs become more effective; Social Firms Scotland, which looks after the interests of those organisations who have an explicit aim to support people with disabilities or other problems who are distanced from the labour market; the Development Trust Association for Scotland⁶ (DTAS) which supports those organisations that are owned and managed by local communities with an explicit aim to support community regeneration; the Community Business Network for Scotland⁷ (CBNS) which promotes and encourages community-owned enterprise, supporting communities to become more self-reliant and sustainable; CEiS⁸, which was established in the mid 1980s to provide training support and finance for community businesses; and Co-operative Development Scotland⁹, a government-funded body that promotes

³ www.unity-enterprise.com

⁴ www.socialenterprisescotland.org.uk

⁵ www.senscot.net

⁶ www.dtascot.org.uk

⁷ www.cbs-network.org.uk

⁸ ceis.org.uk

⁹ www.scottish-enterprise.com/microsites/co-operative-development-scotland.aspx

and facilitates the development of Scottish co-operative enterprises, which are estimated to employ some 28,600 and produce just over £4billion in turnover. (Scottish Enterprise, 2012) In addition, the Social Enterprise Academy¹⁰ provides learning and development for social enterprise leaders across Scotland and has started to expand into the rest of the UK and internationally, while a small Scottish arm of the School for Social Entrepreneurs¹¹ operates in several (former coalfield) areas in Scotland, providing skills development training for those interested in setting up a social enterprise. There are also national bodies for credit unions (the Scottish League of Credit Unions¹²) and housing associations (the Scottish Federation of Housing Associations¹³) and so on.

Support for other parts of the Third Sector is equally as complicated, if not more so, and over the last few years the Scottish Government has, in an attempt to rationalise support structures, encouraged the development of a single 'Third Sector Interface' in every local authority area in Scotland (32 in total). These have been tasked with supporting the development of Third Sector activity, including social enterprise, in each area, and ensuring that the Sector has a voice in community planning discussions. This has, inevitably, caused tensions in some places, such as between various Voluntary Sector bodies and those representing social enterprise. However, the Scottish Government has encouraged co-operation between SENSCOT, Social Enterprise Scotland and Social Firms Scotland, through a 'Supporting Social Enterprise' partnership strategy.

¹⁰ www.theacademy-ssea.org/

¹¹ www.the-sse.org/schools/6/scotland

¹² www.scottishcu.org/

¹³ www.sfna.co.uk/

5.4 Community Finance in Scotland

Community finance, as both formal and informal initiatives, has a long and rich history in the UK, and particularly in Scotland. Formal institutions have taken many forms: savings banks for the poor, for example, the Tottenham Benefit Bank in London and Ruthwell Savings Bank in Scotland, established in 1804 and 1810 respectively (Vittas, 1995); the Rochdale Pioneers, as mentioned earlier, an early consumer co-operative, established in 1844 (McKillop & Wilson, 2011); and credit co-operatives in Ireland, which were first introduced in 1894. (Guinnane, 1994) While informal finance groups have had a continued presence in society, such as in the form of a 'menodge'¹⁴ (Craig, 2010), a version of a Rotating Savings and Credit Association (ROSCA) (Rutherford, 2000), which has operated on a small scale in poor communities in Scotland over the past century or so; and savings clubs, for example, a Christmas Club either run by a Bank or a community itself that offers a 'safe haven' to store any excess money outside of the household usually only to be accessed on an agreed upon date e.g. 1st December. (Thaler & Shefrin, 1981) Evolving from these initiatives are modern day community banking institutions: credit unions and Community Development Finance Initiatives (CDFIs). Contemporary credit unions are a legacy of the German Schulze-Delitzsch and Raiffeisen credit co-operatives¹⁵, and are defined as self-help co-operative financial organisations geared to attaining the economic and social goals of members and local communities. (McKillop & Wilson, 2011) Similar to their predecessors, they generally work to ameliorate the conditions of those worst-off in society.

¹⁴ Usually managed by women in a local community and is entirely based on trust. Members agree to meet at regular times where a small amount is paid into a fund. When all members have contributed, a draw is made or turns taken to allow fair allocation of the fund to a member. The common pot thus allows a normally unaffordable item to be purchased.

¹⁵ The urban Schulze-Delitzsch credit cooperative and rural Raiffeisen credit cooperative were established in 19th century Germany to meet the needs of those who had been hitherto underserved and disregarded by the traditional financial institutions of the time. ((Vittas, 1995); (Guinnane, 1994); (Seibel, 2003))

Glasgow has more credit unions and more credit union members than any other city in the United Kingdom, 34 in total with over 120,000 members and a financial asset portfolio of over £170m. (Credit Unions in Glasgow, 2012) Distinctively, credit unions are governed by their members who share an explicitly demanded form of 'common bond', typically around geographical location. (Mayo & Mullineux, 2001; Bank of England, 2000) Arguably, this common bond functions to inspire a sense of connectedness and community feeling amongst its members (Mayo & Mullineux, 2001) which, alongside the equity contribution required to become a member, results in an ownership structure that seeks to prioritise the aims, interests and well-being of its members instead of the traditional principal motivating factor of a financial institution i.e. profit.

Although the focus of credit unions has principally been fighting financial exclusion, (Ryder, 2002; McKillop & Wilson, 2008) to shield themselves against future vagaries as well as to reduce the stigma that they are a 'poor person's bank', which, as Jones (2008) points out, is unlikely to appeal to the poor themselves, it has been acknowledged that credit unions need to diversify their lending portfolio. Thus, to enable credit unions to expand their reach, a recent legislative change (The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011) has relaxed the burden of proof required around the common bond to enable credit unions to serve a larger membership including community groups and social enterprises. Thus, credit unions are arguably shaping up to become a more active part of the support structure for social enterprise activity than they have to date.

While the new legislation enables credit unions to broaden the scope of their lending activities, they need not comply and can operate as before. (Financial Services

Authority, 2012) Additionally, the recent nature of this legislative change makes it difficult to evaluate its effects. There is an argument to suggest that there is potential for erosion of the 'mutuality and trust' elements upon which (particularly) smaller credit unions thrive. However, with a stronger credit union movement than in either England or Wales, particularly in West Central Scotland where the largest credit union in the UK is located – Glasgow Credit Union¹⁶ – Scotland, and especially the social enterprise movement in Scotland, seems well placed to seize the opportunity this new legislation represents: potential new sources of finance provided by financial organisations that operate themselves as social enterprises. This is in stark contrast to the route of using private sector intermediaries to invest in social enterprise activity, supported by the UK Government and several large banks, which is viewed with extreme scepticism in Scotland, and, indeed in many other parts of the UK. (See, for example, Davison, 2013)

The disparate set of institutions operating under the banner of CDFIs, on the other hand, aim to provide affordable finance to support communities, predominately deprived communities that have been excluded from traditional banking institutions. (GHK Consulting et al., 2010) While operating models, products and services differ across CDFIs, one of the three main tranches of lending that takes place is to civil society organisations. Of the four CDFIs currently operating in Scotland, three offer social enterprise loans¹⁷, the first two operate nationally and the third operates mainly across lowland Scotland; Social Investment Scotland¹⁸, CAF Venturesome¹⁹ and DSL²⁰.

¹⁶ www.glasgowcu.com/

¹⁷ The fourth CDFI in Scotland is Scotcash, www.scotcash.net/, a Community Interest Company (CIC) whose principal product is personal loans.

¹⁸ www.socialinvestmentscotland.com/

¹⁹ www.cafonline.org/charity-finance--fundraising/banking-and-investments/loans-and-capital.aspx

²⁰ www.dsl-businessfinance.co.uk/content/social_enterprises/

5.5 The size and impact of social enterprise in Scotland

As discussed in Teasdale et al. (2013), measuring the number of social enterprises in the UK has become a political minefield, with various Government publications suggesting that the numbers of social enterprises across the whole of the UK somehow increased from 5,300 to 62,000 over a five-year period from 2003 to 2008. Scotland's population, at least according to the latest census held in 2011²¹ was 5,295,400 or around 8.4% of the population of the UK, and so, if following the pattern of the rest of the UK would have expected to have "grown" from around 480 to 5,600 in the same period. Teasdale et al attribute this growth to political decisions to reinterpret key elements of the social enterprise definition, and including new organisational typologies within each sampling frame. In other words, the surveys have been methodologically suspect.

There have been specific surveys undertaken for Scotland in 1997 (McGregor et al., 1997) and in 2003 (McGregor et al., 2003) with the latter estimating around 3,700 social economy organisations employing approximately 70,000-90,000 Full Time Equivalent employees (FTEs) in Scotland alone. SENSCOT currently estimate that there are around 3,000 social enterprises, with a further 3,000 people and organisations working or trading with them. At the time of writing a further survey is underway, reporting initially that there are 509 enterprises in Glasgow alone, representing 13,000 employees, £2.2bn in assets and £700m in turnover. (SENSCOT, 2013)

It could be argued that a lack of comparable data handicaps the Social Enterprise support organisations in their dialogues with the Scottish Government. It certainly hinders the Scottish Government in establishing the potential impact of interventions to support socio-economic and well-being through social-enterprise-led activity, hence the

²¹ www.scotlandscensus.gov.uk/en/

call for a clear definition and an agreement on ways for social enterprises to explain their impact: indeed, it is argued that a key tool for the Third Sector to become embedded within the policy landscape is statistical evidence. (Kendall, 2000)

Evaluations of funding programmes such as the Scottish Executive's £18m FutureBuilders Scotland Fund (Scottish Government, 2008b) and the funding associated with the Enterprising Third Sector Action Plan 2008-2011 have provided basic details of numbers of social enterprises which have been supported by these policy initiatives. But these evaluations provide little information or research conclusions to indicate the wider contribution or impact on local areas or the national Scottish economy, or indeed on community or individual well-being, that social enterprise-led activities can bring. This is a clear area of priority for future research in the field.

5.6 Defining social enterprise in Scotland

A recurring theme emerging from this paper is about how the perception of 'threat' from a much larger and powerful neighbour manifests itself in many areas of culture, politics and policy.

While there remains no legal definition of a social enterprise in any part of the UK, the oft cited Department of Trade and Industry definition "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" (Department of Trade and Industry, 2002) has retained significant support in Scotland, despite attempts to stretch the definition of a social enterprise beyond recognition by several actors in the private and public sectors to suit their own agendas, including UK Government Ministers in recent times. (Jones, 2012; Roy et al., 2013)

Indeed broad moves by the UK Government towards a more neo-liberal, US-influenced agenda in all manner of areas of public policy, particularly in the name of austerity measures, have resulted in Scotland attempting to distance itself from such thinking.

This was certainly one of the forces behind the development of a set of Scottish criteria or principles for Social Enterprise being developed by SENSCOT. Their five Scottish criteria (SENSCOT, 2010) are set out in Figure 1, for ease of reference shown in comparison to the nine criteria for social enterprises developed by the EMES Research Network. (Borzaga & Defourny, 2001) What is noticeable is that SENSCOT place less of an emphasis upon democratic governance models than the EMES definition. Unlike many other western European nations (Nyssens, 2009) there is no legal requirement in the UK to involve those people affected by the service in the governance of the social enterprise (mainly down to the fact that there is no legal definition!) but in practice involving beneficiaries in the governance structures is not unusual by any means. That said, and as Mayo et al. (2001) point out, there are undoubted lessons that the UK can apply from elsewhere, including, for instance, the social co-operative business model in Italy, which brings together professional workers and disadvantaged employees as well as service users in the governance of the enterprise.

SENSCOT's criteria have been influenced by the late Scots based author and social activist John Pearce whose ideas – particularly his Three Systems of the Economy conceptual diagram – remains highly influential, not only in Scotland, but internationally. (See, for instance, Ridley-Duff & Bull, 2011, p. 15; Lewis, 2006, p. 4)

Figure 1. EMES vs SENSCOT principles of social enterprise

EMES Criteria

Economic and Entrepreneurial Dimensions

1. Continuous activity producing goods and/or selling services
2. Significant level of economic risk
3. Minimum amount of paid work

Social Dimensions

1. Explicit aim to benefit the community
2. Initiative launched by a group of citizens or civil society organisations
3. Limited profit distribution

Participatory Governance

1. High degree of autonomy
2. Decision-making power not based on capital ownership
3. Participatory nature, which involves various parties affected by the activity

SENSCOT Criteria

Criterion 1 – Social Enterprises have social and/or environmental objectives

As one of its defining characteristics, a social enterprise must be able to demonstrate its social mission. This will be evidenced in its constitutional documents but the production of other (externally verified) evidence is encouraged - to provide transparency of purpose and accountability to stakeholders. Tools and techniques to measure social and environmental impact are becoming more effective and user friendly.

Criterion 2 – Social Enterprises are trading businesses aspiring to financial independence

This second defining characteristic is demonstrated by an enterprise earning 50% or more of its income from trading. This will be evidenced by the accounts of the business over a reasonable period. A high level of income from the public sector is acceptable in the form of contracts - but not grants.

Criterion 2 is intended to mark the boundary between social enterprise and much of the voluntary sector: (Many Voluntary orgs trade over 50% without calling themselves social enterprises)

Criterion 3 – Social Enterprises have an ‘asset lock’ on both trading surplus and residual assets

Whether or not it's a charity, a social enterprise re-invests all its distributable profit for the purpose of its social mission. Where the business has shareholding investment (very few in Scotland) no more than 35% of profit may be distributed in dividends. In addition, the constitutional documents of a social enterprise must contain a clause to ensure that, on dissolution of the business, all residual assets go to social/environmental purposes.

Criterion 3 is intended to mark the boundary between social enterprise and the private sector.

Criterion 4 – A Social Enterprise cannot be the subsidiary of a public sector body

Whilst a social enterprise can be the trading subsidiary of a charity, it must be constitutionally independent from the governance of any public body. Additional evidence of this would be required from Public Sector externalisations.

Criterion 4 is intended to mark the boundary between social enterprise and the public sector.

Criterion 5 – Social Enterprises are driven by values – both in their mission and business practices

Social enterprises operate in competitive - often fierce - markets but there is an expectation that their dealings will be ethical and that they will offer their people satisfactory wages, terms and conditions. Enterprises of a reasonable size are expected to have clear human relations and environmental policies. Transparency would be achieved through the voluntary adoption in the sector of a maximum ratio between highest and lowest paid - of say 1:5 - investing a culture of equality.

As briefly touched upon earlier, the sector in Scotland, in line with certain other parts of the UK, has been unashamedly driven by the need to keep private investment and dividends out of the social enterprise funding landscape, in clear reaction to the emergence of ideas from London such as Big Society Capital²² and Social Impact Bonds²³. SENSCOT, for instance, draws a clear line between making ‘soft’ loans available for social investment on the one hand, and private and external funders making money from the delivery of social or community enterprise on the other. In rejection of the UK Government’s Big Society Capital model, the concept of a Scottish Community Bank is

²² Big Society Capital, billed as the UK’s social investment bank, seeks to harness markets to access sources of capital which will be used to solve societal and social problems (Cohen, 2012).

²³ Social Impact Bonds (SIBs) involve a multi-stakeholder arrangement between the public sector, the Government and investors where investors are offered returns (paid back by the Government) if their investment makes improvements (to a pre-agreed level) to the social outcomes of a service provider (Social Finance, 2012).

currently being explored by the sector in Scotland, an iteration of an earlier concept – the Scottish Community Enterprise Investment Fund (SCEIF) – which, in 1990, was launched and raised £0.5m through a share issue and ran and gave loans for 10 years to community businesses and enterprises before passing itself on to the (then) newly formed Charity Bank.

A similar example of Scots choosing to tread an alternative path concerns the Social Enterprise Mark, introduced to the UK over the last couple of years. Rather than the Government (as in the case with Finland) administering the Mark, this has been organised through an independent Community Interest Company based in Exeter, England. (Ridley-Duff & Southcombe, 2012) Financial pressures upon them have meant that the qualifying criteria for the Mark has had to be relaxed, perhaps wider than Scottish social enterprises, and certainly organisations such as SENSCOT, were comfortable with. (Hampson, 2010a) As a result the Scottish intermediary institutions withdrew their support for the Mark, with the initial intention to form a distinct Scottish Mark that reflected the Scottish criteria. Interestingly, one of Edinburgh Council's ALEOs, mentioned earlier, applied for and was granted – the Social Enterprise Mark. It would have failed Criterion 4 of SENSCOT's Scottish Criteria.

Examples of Scottish cynicism of a world in which public sector municipalists and private sector opportunists can be seen to 'masquerade' as social enterprises (Jones 2012), particularly in England, are not hard to find. Indeed, Scots' mistrust of initiatives emanating from the UK Government might partly explain why the Community Interest Company structure, introduced into law across the whole of the UK in 2004, has been slow to take off in Scotland. Scotland has around 5.5% of all companies registered in Great Britain (Companies House, 2011) but only 4% of the total number of CICs. (CIC

Regulator, 2011, 2012) This is less than a third of the level of CICS in the North West of England (14%) around half the level in North East England (7%) and only just ahead of Wales (3%).

6. Challenges

6.1 Market conditions in Scotland

There is no guarantee that the Third Sector in Scotland is necessarily better placed than England to fill the gaps in provision that withdrawal by the State in areas of welfare will inevitably create, and indeed have already created. The relative absence of a market for public services, at least in comparison to England, could be seen as an unfavourable condition for social enterprise growth in Scotland. It remains to be seen whether the widespread use of measures such as Community Benefit Clauses, which have yet to be seen in England, is sufficient to offset a relative lack of opportunity for social enterprises to compete for local public service contracts in areas such as Glasgow. It is in Scotland's inner cities where a thriving Third Sector is arguably needed most, but there is still a perception (driven by a fair amount of evidence) to suggest that Third Sector activity, including starting up a social enterprise, is largely a middle class pursuit. (Davies, 2006)

While the Third Sector has been able to influence the policy debate to a certain extent in Scotland, and certainly have had more power and influence than they had previously experienced prior to devolution (Alcock, 2012) the ability of Scottish based Third Sector Organisations to influence the dialogue at a UK level is minimal, given that most areas of policy relevant to them are devolved.

Conclusions

The United Kingdom (UK) is seen as having the most developed institutional support structure for social entrepreneurship/enterprise in the world. (Teasdale et al., 2013; Nicholls, 2010) Although there is a company law framework that extends across the whole of the UK, the policy landscapes are decidedly different. Scotland has considerable advantages when it comes to social enterprise activity, and Historical Institutionalism provides a framework to understanding how these advantages have come about: an embedded culture of humanist values, which has translated into political support for parties with social democratic agendas, a high developed and complex array of support institutions which has developed over many years, and a significant and explicit commitment of support from Government and individual politicians which has not shown signs of waning (indeed has shown encouraging signs of growing) despite the poor financial outlook.

However, all is not positive. Scotland is still very dependent upon the public sector and thus suffers disproportionately, in comparison to many other parts of the UK, when the state contracts. Furthermore, Scotland does not have the advantages of scale, particularly of markets, which England and other more populous nations have. This is compounded by the 'command and control' nature of some local authorities in Scotland which manifests in a peculiar schizophrenic attitude towards the Third Sector: viewing it as a 'good thing' on the one hand, but which, on the other, keeps social enterprise activity (in particular) away from public sector contracts because of their reticence to open up markets.

In addition, Scotland has a small population and those involved in social enterprise are a relatively small, fairly tightly knit community. Indeed, Scotland is often characterised as

a village. While village life is often idealised, the reality is that a village (at the risk of stretching the analogy too far) cannot possibly possess all of the characteristics for any and all types of business to flourish.

So rather than claiming that the conditions in Scotland are the “most supportive in the world for social enterprise” perhaps it would be more productive to ask whether the conditions are the most supportive they can be for Scotland. There are a number of considerable challenges facing public services and no end of ‘rallying cries’ for the Third Sector to step forward. Whether the Third Sector in Scotland is ‘enterprising’ enough to rise to meet the evident and obstinate problems facing society in a sustainable and innovative fashion, in a future likely to be marked by much less public money to address these grand challenges, remains to be seen.

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