BSSEC bulletin
Research Summary Report - June 2006

Strengthening Social Enterprise
Development support for the third sector

Recent ChangeUP-funded research commissioned by BSSEC examines the business support available for social enterprises and trading voluntary and community organisations (VCOs).

The research is being used to inform specific recommendations for strengthening the social enterprise and voluntary sector support infrastructure in Birmingham's ChangeUP Investment Plan, a ten-year vision for investment in the city's third sector. It will also be of interest to anyone who shares a commitment to social enterprise and wants to see the sector grow.

The full reports, executive summaries and presentation slides for both programmes of research can be downloaded from the BSSEC website (follow the link to 'Resources') at **www.bssec.org.uk**.

Read on for the key findings.

Introduction

During January-May 2006 two programmes of research were undertaken to examine the business support infrastructure for social enterprises and trading VCOs in the Birmingham and Solihull sub-region. The research examined the **"supply-side"**, where there was a particular emphasis on the capacity and resources of existing and emerging providers to meet the demand for business support services, and the **"demand-side"**, where there was an emphasis on what social enterprises and trading VCOs themselves are saying they need. **This is a short summary of the key findings of both research programmes.**

The research indicates that support provision in Birmingham and Solihull **"has become increasingly fragmented, incoherent and patchy"** and that "support on a scale that is required for a growing and vibrant social enterprise sector in the sub-region does not exist."

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BIRMINGHAM & SOLIHULL SOCIAL ECONOMY CONSORTIUM

BSSEC Bulletin is produced by Birmingham & Solihull Social Economy Consortium (BSSEC) - a practitioner-led network that supports and promotes the social enterprise sector.

What are social enterprises?

Social enterprises:
- combine economic and social objectives
- trade in order to achieve their social objectives
- operate in the interest of the community

The Dept of Trade & Industry has defined a social enterprise as: "A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners"

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For more information on social enterprise, case studies of inspirational enterprises based in Birmingham and Solihull and other resources, visit www.bssec.org.uk

Key findings

Supply of Business Support Services

The Birmingham sub-region is one of the most established markets for social enterprise support in the West Midlands. It is thought that around 300 social enterprises trade in the sub-region with the vast majority of these in Birmingham. In 2005, support agencies in the locality assisted around 400 clients, a caseload which increasingly includes both social enterprises and VCOs that have adopted social enterprise models of trading and income-generation.[1] Other research indicates that over 50% of Birmingham VCOs now have some form of self-generated income.[2] **Taken together, these factors begin to give us a much better understanding of what is fuelling demand for business support and development services right across the third sector.**

Our research included over 25 organisations involved in various ways in business support. And yet the vast majority of these providers make no special provision for social enterprises and have no resources that would enable them to extend or develop such provision - despite wanting to, in several instances. It is possible, then, to gain a very deceptive overall picture of the capacity and resources for social enterprise business support.

The key facts are these:

- Two key agencies only provide the bulk of support in Birmingham. In Solihull, support is available from only one organisation, based in North Solihull; this receives no funding to assist new or growing enterprises, despite the fact that, like other key support agencies, it contributes to meeting national targets - such as those Government sets for the Regional Development Agencies - on improving productivity, skills, employment levels and regeneration of the most deprived areas.

- Most of these agencies are not social enterprise specialists and the support they can offer to social enterprises may be extremely limited.

- Public funding for the delivery of social enterprise business support is declining and from other sources is becoming harder to secure. The business support sector is far more under-resourced than it was even three years ago. To take just one example, it is estimated that in under a decade Birmingham City Council funding for community economic development initiatives - including social enterprise - has declined from £4m-£5m per year to under £250K. The situation in Solihull, where social enterprise development has not been financially supported for at least the last three years, is worse still.

- Agencies that do have the resources to deliver business support for the sector report high demand which they can't always meet. But historically providers of business support for social enterprise have always recognised that they also have to create demand: marketing, promotion and community outreach have always played a huge part in generating interest in social enterprise. Currently, however, few if any agencies say they have the necessary resources to unlock this "latent" demand, while others deliberately undertake only very limited marketing in order to "cap" demand at a level they know they can accommodate.

Paradoxically, then, despite the fact that social enterprise has been a feature of national public policy for over five years now - with the launch of a Social Enterprise Unit in 2001 and a national strategy for developing the sector in 2002 - **agencies that can support and develop the sector in Birmingham and Solihull are currently more focused on survival than "gearing-up" and expanding their services.**

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1 Earlier Birmingham CAN!-funded research suggests that during the period 2002-2004 VCOs accounted for up to half the caseload of the main support agencies. This reinforces the argument that trading, contracting and income-generation are fuelling widespread 'hybridisation' in the sector, with ever-greater numbers of VCOs looking to social enterprise approaches in order to survive. Review of Member Agencies' Caseload 2002-2004, BSSEC [December 2004].

2 Initial findings from ChangeUP 'sector intelligence survey', BVSC, May 2006.

This means that:

- Business support services for social enterprise are not keeping pace with wider change in the sector.

- Strategic development to expand the marketplace for third sector goods and services and to realise new and emerging opportunities has not been sufficiently focused on.

- While limited training has been available to help enterprises meet the challenges of recent policy initiatives – such as public procurement and public service delivery, for example – it has not so far proven possible to incorporate these into business support services as key developmental objectives.

- Inter-agency referral mechanisms and follow-up are poor: resources have not been available to help develop a more co-ordinated 'client management' system.

- Geographical "support deserts" exist where capacity is especially limited or even non-existent, such as North Solihull.

- **Sustainability of individual support agencies is now critical.** In part this is driven by the costliness of providing dedicated, specialist advisors undertaking one-to-one support and most agencies are looking at how they can reduce both the costs and duration of the "development relationship" they have with clients. And yet the research indicates that amongst service-users dedicated one-to-one support remains the favoured delivery model and the most effective at meeting need.

Demand for Business Support Services

Although half the sample of enterprises surveyed in our research reported accessing some form of support, further analysis revealed this to be generally quite low level (e.g. breakfast clubs and briefing sessions) or primarily about compliance (e.g. local authority contract or funding compliance). Access to sustained business support that is tailored to an enterprise's specific developmental circumstances is now the exception rather than the rule.

Further discussion with a substantial sample of social enterprises and trading VCOs revealed that:

- Most do not consider that business support for the sector is currently able to respond fully to their needs - especially during periods of critical change:

  • There is a shortage of customised support that is "just in time" (i.e. delivered when it is needed).

  • Too much of the available support is "pre-packaged" and inflexible, driven by the programme needs of funders rather than the development needs of service-users.

- There is some appetite for new models of support delivery, such as peer-to-peer support provided by networks or clusters of more experienced social enterprises. But even where alternative models of support might exist there is little recognition amongst funders that such models require resources, co-ordination and capacity in order to be effective rather than a burden to their providers

- While some VCS networks - such as the Local Development Agencies (LDAs) - potentially offer a key interface with social enterprise clients, this is still hampered by low awareness of social enterprise and a poor and in some cases non-existent referral framework. There is also an additional problem in that our research found there to be generally low awareness and understanding of what the LDAs can do and for whom. This constitutes a major missed opportunity in promoting social enterprise approaches to income-generation and diversification in the VCS.

The *forms* of support required can be split into two categories:

- Access to specialist expertise and technical support.

- And business support and strategic development.

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Access to specialist expertise and technical support

Access to specialist expertise and technical support (as distinct from longer-term business support and development) needs to focus on five key areas:

- **HR** - where need is being fuelled by growth, expansion and recruitment in the sector: 65% of industrial tribunal proceedings in the West Midlands in 2004 were from the VCS.

- **Legal services and advice** - increased levels of trading and contracting and the adoption of more complex business models are making organisations less certain that they have the most appropriate legal structure.

- **Finance and funding** - more complex business models are driving demand for better understanding of, and access to, capital and working capital. Current social borrowing facilities are little understood: awareness is low and historically volunteer boards and management committees are risk averse and concerned about personal liability.

- **Marketing** - although the sector has in the past had some success with marketing services and especially projects amongst its networks, there is no wider culture of social marketing and resources to purchase professional marketing support are virtually nil.

- **Information technology** - access to IT (both hardware and software) is less of an issue currently than making optimum use of IT and reaping the additional operational benefits that effective IT usage can offer.

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Business support and strategic development

Longer-term business support and strategic development should focus on those areas where real added-value can be realised and new or emerging opportunities for the sector unlocked, including:

- Timely, customised support that reflects real developmental circumstances and the critical change currently taking place in the sector.

- Procurement and contracting - one-to-one support to build skills in procurement and contract acquisition.

- Strategic development of the marketplace for third sector goods and services.

- Effective leadership and management

Four tiers of support

In addition, past experience also indicates that for maximum effectiveness, business support should be configured in four 'tiers', thus offering support that reflects not just the working practices of the sector but also the prevalent development scenarios that are found there.

These four tiers can be characterised as follows:

- **Pre-start support:** Utilising community development techniques to assist communities and/or groups to achieve 'enterprise-readiness'

- **New start and trading support:** Tried and tested social enterprise development support aimed at helping groups develop their business ideas and trading activities to the point at which trial trading, start-up and incorporation can take place.

- **Continuing support:** Tailored, continuing development support which is contextualised and can assist enterprises at all stages of the business cycle.

- **Advanced development support:** Wider changes in the VCS and social enterprise sectors are fuelling demand for more complex support that targets high-growth potential, expansion, investment-readiness and building skills and capacity in contracting (including pricing, negotiation, contract acquisition and contract management) and procurement. But in addition, demand is also being driven by traditional VCOs that now need to explore new business models if they are to improve their chances of survival and sustainability.

At each of these levels, enterprises will also need access to appropriate finance. In more established enterprises this will include loan finance from appropriate 'community development finance institutions' (CDFIs). But there is also evidence to suggest that integrated funding packages, offering a mixture of smaller scale grants for developmental purposes gradually building to loan finance, can offer an environment in which projects can grow successfully into sustainable enterprises. The South Yorkshire Key Fund is one example where a mixed economy of grant support and loan finance is being used successfully.[3]

Conclusions & Recommendations

Currently, then, we have a business support infrastructure that is not properly resourced, that cannot meet demand - either by volume or complexity of service - and that is not operating at the scale that is required for a growing and vibrant social enterprise sector in the sub-region.

The research makes strong recommendations in favour of the following:

- Proper resourcing of specialist, dedicated social enterprise support, which is timely, tailored to need and reflects critical change in the sector.

- Targeting support at growth opportunities by: focusing on new and emerging market opportunities; seeking to add value to the sector; building the marketplace and enabling social enterprises to take advantage of key opportunities, such as public procurement.

- Strong and influential strategic leadership is required in order to drive forward the social enterprise agenda and develop key opportunities with partners in both the public and private sectors.

- Measures to build awareness of social enterprise, especially amongst potential VCS referral networks, coupled with more effective referral and client-tracking and better "navigation" through the available services to ensure that enquirers are directed to those that have the capacity and resources to service their needs.

- Alternative delivery models, such as peer-to-peer support and cluster development may need to be explored, but this should be on the basis of their proper resourcing, co-ordination and development.

- Support should address service gaps, especially: unlocking "latent demand", which may be particularly prevalent in BME communities and amongst women; business incubation space coupled with integrated business support; and access to affordable specialist expertise and technical assistance where and when it is required.

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3 See http://www.sykeyfund.org.uk/index.html