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WHITHER SOCIAL ENTERPRISE? A TYPOLOGY OF SOCIAL ENTERPRISES IN SOUTH YORKSHIRE

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ABSTRACT

Increasingly the United Kingdom government is looking upon social enterprises as a key policy intervention to tackle deprivation and poverty. However, grant and philanthropic support structures which have traditionally supported social enterprises are in serious decline. This development is now threatening the survival of social enterprises across the country. In addition to challenges brought about by globalisation, it is inevitable that social enterprises will interact more with stakeholders outside the social economy to secure vital resources and expertise required for them to survive. These developments imply the need for drastic change of mindset across the sector and development of robust business models to maximise extraction and deliverance of value. The main focus of this research is on the current discourses on the development of social enterprises in the United Kingdom and particularly in South Yorkshire region. Specifically, the focus is on the legal structures of these organisations and how they impact on their performance and outcomes. This paper presents and discusses key results emerging from a doctoral investigation on the development of social enterprises in South Yorkshire. The investigation was carried out in the context of the United Kingdom's policy framework on the sector and the pressing need for social enterprises to be financially sustainable and therefore reduce dependency on state support.

INTRODUCTION

Over the years, we have seen an acceleration of industrial development worldwide, forcing many businesses to continuously review and change priorities (Batra, 1996).

Globalisation has largely been typified by deregulation and liberalisation of trade forcing businesses to constantly adjust and look more at external rather than internal markets (Favreau, 2000). Despite these developments, social needs of communities have not necessarily decreased, highlighting the need to continuously search for effective strategies to address them. It is against this background that social enterprise development in the UK and particularly South Yorkshire is discussed and analysed in this paper. The paper will particularly focus on legal structures of these types of organisations and how they impact on their ability to attain sustainability in competitive markets. The discussions will start with a historical perspective of the development of social enterprises, followed by operational issues associated with the sector in the UK. The paper will conclude by discussing findings of the investigation on social enterprises undertaken in South Yorkshire region and their implications on policy formulation.

1. THE SOCIAL ECONOMY AND SOCIAL ENTERPRISE

Most researchers agree that social enterprises developed from organisations associated with the social economy (Hines, 2005). While there are various conceptual definitions and debates surrounding the meaning of the social economy, researchers generally agree that the social economy is a term that describes the part of the economy that is neither privately nor publicly controlled (Haugh, 2005). Some have described this concept as "encompassing everything that sits outside the traditional private and public sectors, incorporating all voluntary/community sector activity" (Social Enterprise Strategy For greater Merseyside, 2003). Most researchers, amongst them, Moulart and Ailenei (2005) as well as Gueslin (1987) agree that the 19th Century is probably the foundation of the origins of the social economy. This was the period of the Industrial Revolution, characterised by extreme poverty and worker exploitation. Levesque et al (2001) referred to these socio-economic injustices as the social brutalities of the Industrial Revolution. In an attempt to improve the welfare of the vulnerable workers and address these injustices, a number of interventions such as co-operatives, mutual aid practices, liberal philosophies and utopian initiatives were launched (Moulart and Ailenei, 2005; Laville and Nyssens, 2001). The interventions were clearly a direct response to the socio-economic problems arising out of the industrialisation process, which was based on capitalist ideologies (Defourney and Develtere, 1997; Monzon, 1989)

2. CONTESTED UNDERSTANDING OF SOCIAL ENTERPRISE

Social enterprise is a result of the evolution of the social economy and the philanthropic organisations associated with it (Laville and Nyssens (2001). These include earliest forms of craft guilds, building societies and savings clubs that became forerunners of the social enterprises that we know today (Conaty and McGeehan, 2000). Therefore social enterprises have gained prominence perhaps because of their business- like nature in contrast to the traditional non-profit organisations associated with the social economy (Dart, 2002). As a concept this type of a business is also a politically contested ground and for many it still remains confusing and unclear (Carte, r 2003;OECD, 1999). It is not surprising therefore that this concept is subject to various definitions and interpretations. The Department of Trade and Industry (DTI, 2002) in the UK

describes a social enterprise as a "business with primarily social objectives, whose surpluses are principally re-invested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners" (DTI, 2002). On the same note Paton (2003) and Prabhu (1999) suggest that social enterprise should involve individuals creating and managing interventions where the main motivation, isn't financial gain. Dees (2001) takes a slightly different view by describing this type of enterprise as a hybrid of commercial and philanthropic methods. Social Enterprise London (1999) regards social enterprises as competitive businesses owned and trading for a social purpose.

The above definitions of social enterprise arguably reflect opposing thoughts of two distinct schools of thought. The DTI (2002) definition represents the views of those who emphasise the achievement of social aims over profit maximisation. On the other hand Dees (2001) and like minded researchers that see profit maximisation as an integral aspect of social enterprises. The former view perhaps stems from the generally agreed fact that traditionally within the social economy, there has been a stronger emphasis on achieving social rather than commercial objectives. It is only recently as the concept of social enterprise continues to evolve, that this appears to 'blur boundaries between business and social principles', as social enterprises seek to maximise profits to further their social aims (BRASS, 2004). Despite different views on its meaning, there is consensus that a social enterprise is first and foremost, a business engaged in some form of trading to produce a surplus or profit (Stutt, 2001). This sector has continued to grow over the years and has become an integral feature of most economies in industrialised countries (Simons, 2000).

3. SOCIAL ENTERPRISES IN THE UNITED KINGDOM

The concept of the social economy is "relatively new in the United Kingdom, though social enterprises have a much longer history, dating back over two hundred years" (Employment in focus, 1998; Hines, 2005). It was only recently (after the election of the New Labour government, in 1997) that the central government's espousal of the social enterprise model became much clearer (BRASS, 2004). Since then the concepts of the social economy and social enterprise has become central to the governments policy of tackling exclusion and deprivation.

There are about 55 000 social enterprises in the UK, with a combined turnover of £27 billion per year. These enterprises make up 5% of the UK national business base, making the sector as a whole larger than the agricultural sector in the country (Jump, 2007(a)). The social enterprise sector is now growing with about 1. 3 million people (3. 4% of the working population in the UK), employed in it (Filou, 2008). Growth of the social enterprise concept is envisaged to continue as (5. 8 %) of the UK working population is engaged in some form of early stage entrepreneurship. At least 230 000 of these individuals are keen to start a business with social objectives (Global Entrepreneurship Monitor, 2007). This development is significant in that it is congruent with some of the central government's objectives of reforming the welfare system, such as tackling the dependency culture(The Economist, 2008). The main objective is to encourage people to move from welfare to work, with promotion of self employment through enterprise high on the agenda. Some of the best known social enterprises in the UK include The Big Issue, which addresses homelessness through enterprise, Jamie Oliver's 15, giving disadvantaged young people a chance to learn a trade and Ealing Community Transport. This enterprise provides innovative solutions to community transport problems and has since grown and diversified into other activities such as recycling.

The UK government introduced a number of policy instruments to support their efforts in developing the capacity of social enterprises to be financially sustainable. These include the latest social enterprise strategy, *Scaling New Heights*, public/private sector programmes such as *Equity Plus* and exploration of risk capital financial packages for social enterprises. A glance at these policy instruments shows a clear desire by the government to promote self-reliance and sustainability within the sector. The search for more sustainable social enterprise development has seen the introduction of new legal structures for social enterprise called the *Community Interest Company (CIC)* in 2005. This legal vehicle which has a share capital variant is discussed in section 3.1. of this paper. These developments are evidence of New Labour's declining interest in the mutual system and an increasing desire to get the disadvantaged off welfare (West, 2004).

Similar to conventional businesses, the challenges that are facing social enterprises in the UK are daunting (Simons, 2000). The restructuring of traditional grant funding streams for social enterprises in the UK has seen these funds now being diverted to countries in Eastern Europe, which are new entrants to the European Union (Flockhart, 2005). In addition, most funders including banks are now more inclined to support the establishment and growth of social enterprises through loans and investments rather than traditional philanthropy (Cook, 2007). This strategy allows them to grow their own capital to ensure continuity of their programmes (Buttenheim, 2002). These developments are now forcing social enterprises to look at alternative sources for financial support outside the social economy. It is becoming clear that inappropriate legal structures are one of the key barriers to the effectiveness of social enterprises in responding to the challenges they face (Bank of England, 2003). The legal structures of social enterprises in the UK are discussed in the next section.

Legal structures and social enterprise

The common legal structures of social enterprises in the UK include company limited by guarantee (CLG), industrial and provident societies (IPS) and companies limited by shares (CLS) (DTI, 2002). Most recently, another legal vehicle with a share capital variant was launched in the UK, called *Community Interest Company (CIC)*. These legal structures are shown and discussed in table 1 below.

Table 1 - Summary of legal structures

CLASS	TYPE OF LEGAL STRUCTURE	CHARACTERISTICS	LIMITED LIABILITY	ENTERPRISE AND FINANCIAL STRUCTURES
A	Company limited by guarantee	<ol style="list-style-type: none"> 1. No individual ownership. Company held in stewardship by an elected board of directors(usually unpaid) 2. Allows community ownership 	Yes	<ol style="list-style-type: none"> 1. Cannot attract equity finance 2. Can attract both grant and loan finance
	Industrial and Provident society/cooperative	<ol style="list-style-type: none"> 1. Controlled and managed by members 2. Directors have delegated powers 3. Democratic structure, with one member, one vote 4. Equitable and fair distribution of economic results. 	Yes	<ol style="list-style-type: none"> 1. Strict share holding rules, therefore unattractive to venture capitalists 2. Can attract both grant and loan finance as well as tax concessions
B	Community Interest company (CIC)	<ol style="list-style-type: none"> 1. No individual ownership 2. Can either be a CLG or CLS 3. Has an asset lock on profits and assets 4. Has external regulatory mechanism 	Yes	<ol style="list-style-type: none"> 1. Can issue shares but dividends on shares are capped 2. Attractive to philanthropic rather than venture capitalists 3. Can also attract grant and loan finance.
C	Company limited by shares (CLS)(NEWCO)	<ol style="list-style-type: none"> 1. A legal entity in its own right 2. Private/public finance initiative allowing various stakeholder participation in the enterprise 3. Allows ownership of idea and intellectual property 	Yes	<ol style="list-style-type: none"> 1. Can attract equity finance 2. Allows profit distribution to investors and community organisations 3. Can attract both grant and loan finance

Source: literature review. Table contents source: ACEVO (2005), SCEDU (2002), Cox (2000), ICOM (1994)

Class A legal structures are the most common legal vehicles within the social economy and continue to allow social organisations to achieve their objectives. However they are by no means the most efficient and there is no guarantee that they will necessarily provide allow social enterprises to maximise deliverance of social value (DTI, 2003a). For example, while these can be vehicles for enterprise, they are unable to attract venture capital because by their nature cannot issue shares in return for equity (Conforth, 1998 ; Barker, 2003). Although they can allow social enterprise to access grants, the organisations need to demonstrate financial viability to attract loan finance packages (Bank of England, 2003) Therefore it is not surprising that organisations with these types of legal structures are heavily dependent on grant funding to cover core costs of delivering their interventions (Cox, 2000).

The inflexibility of some of the current legal structures was one of the reasons the UK government Introduced the Community Interest Company (CIC), in 2005 (DTI, 2003b). This model shown as Class B legal structure has triple functionality. A CIC can be structured as a company limited by guarantee, private or public limited share capital entity. The presence of external regulatory mechanisms (caps on shares and dividends) make it more attractive to philanthropic, rather than venture capitalists (DTI, 2004). The dividend cap however, is a significant drawback in attracting investors who may be reluctant to invest their capital into an organisation where an external regulatory mechanism determines the return on their investment (Giddens, 2007). Therefore the CIC's financing options, though significantly better than Class A legal, structures are still limited. Only recently the regulator of CIC announced a consultation exercise to consider raising the dividend caps on CIC surpluses from the current 35% limit (Jump, 2009). This move is confirmation that the restrictions on the CIC share capital model have become a barrier to investment.

Class C legal structures refer to company limited by shares models. While there are a limited number of social enterprises that are structured as share capital entities, there is anecdotal evidence that they are increasing (SCEDU, 2003a). These types of legal structures, in certain cases can attract both grant funding and equity finance, when they are appropriately structured, such as the NEWCO (Barker, 2003) This legal vehicle was pioneered in Sheffield UK and unlike the CIC is shares are not capped. It also has an internal regulatory mechanism comprising of organisations and individuals involved in the enterprise (SCEDU, 2003b). The structure also recognises contribution of individual entrepreneurs and allows financial remuneration of these individuals. The concept of equity investments in social enterprise however is problematic. Research has shown that most social enterprises are not familiar with the concept of equity investments (Bank of England, 2003). This could be one of the reasons why share capital legal structures are not a common feature in the UK social economy (IPSEYH, 2004). The Social Catalyst (2006) also urges caution with regards to share capital arguing that making equity investments in social enterprise may lie in the expansion of the definition of a social enterprise itself.

4. SOCIAL ENTERPRISES IN SOUTH YORKSHIRE

In order to gain deeper insight into how social enterprises operate the next sections focus on the results of the investigation on social enterprise development in South Yorkshire. This took place from April 2004 to August 2007. The main objective of the study was to obtain information on the size, character and nature of the social enterprise sector and its contribution to the UK economy from key informants within the region. Specifically the focus was on how legal structures of social enterprises influence their operations. Smyth (2004) argues that a conceptual

framework is useful in providing the necessary scaffolding needed to support and guide an investigation. In this investigation, a hybrid conceptual framework consisting of elements of new institutional economics and institutional political economy approaches to analysis of social enterprises was used. The reason for using the hybrid approach was based on the realisation that one conceptual framework of analysis could not sufficiently explore the complexity of the concept of social enterprise.

Socio economic context of social enterprises in South Yorkshire

The South Yorkshire region is made up of unitary boroughs comprising, Sheffield, Rotherham, Barnsley and Doncaster. Barnsley, Doncaster and Rotherham are also referred to as the coalfield areas of South Yorkshire, due to their coal mining history. South Yorkshire lies, roughly in the centre of the United Kingdom (South Yorkshire Partnership (2004)). The region covers an area of 1, 560 sq km (National statistics 2003). Sheffield is the largest of these unitary authorities that make up South Yorkshire and is the main economic centre of the region (Yorkshire and Humber Plan, 2005). The region also contributes, 21. 7% of Yorkshire and the Humber Gross value Added (GVA) and despite having 25. 7% of the region's population of working age, it still bears 26. 8% of the region's unemployment figures (South Yorkshire Partnership 2004). According to the 1998 Price Waterhouse Coopers report, the region faces exceptionally difficult sets of socio-economic challenges (South Yorkshire Investment Plan, 2004).

As a result of the economic upheaval of the 1980s, South Yorkshire region as a whole contains some of the poorest boroughs in the United Kingdom. This period was characterised by wholesale closures of mines and massive job losses (Thompson et al, 2000). Mines were the mainstay of the region's economic base and their closure brought serious economic decline and deprivation in several areas across the region. This picture is captured in Table 2 below showing how severe the levels of deprivation are in comparison to the rest of the UK. The figures offer valuable insight into the full range of socio-economic and environmental problems plaguing the region. The region benefited from European financial assistance, under the European Regional Development Fund (ERDF) after being designated Objective 1 status (the highest category of European Support) at the Berlin summit in 1999 (IPSEYH, 2000). The funding was provided to tackle socio-economic deprivation in the most deprived areas across the region through provision of training opportunities, employment and business creation. (SYIF, 2003). Objective 1, in particular has been a £1. 8 billion investment programme, including £700million from the European Union Structural Fund (GOYH, 2001). The establishment of sustainable social enterprises was considered to be one key intervention in which deprivation and exclusion could be tackled in South Yorkshire (IPSEYH, 2004).

Table 2 - Socio-economic deprivation in South Yorkshire

<i>Borough</i>	<i>No. of wards in the most deprived 20%</i>	<i>Percentage of wards in the most deprived nationally</i>
Barnsley	17	77.3
Doncaster	14	66.7
Rotherham	13	59.1
Sheffield	13	44.8

Source: Regional Economic Strategy Companion Document (2003)

The next section focuses on some key themes emerging from the investigation, starting with the methodology used to obtain the required information.

5. METHODOLOGY AND DATA COLLECTION.

Being a relatively new concept social enterprise is under researched in the UK and indeed the world over (BRASS, 2006). Consequently a lot of literature on this concept is largely in the grey form. Where it exists, it is largely fragmented. Salamon (1994) concurs by saying that by their nature, non-profits are quite diverse and this further exacerbates their documentation and analysis. Social enterprises in South Yorkshire exist within a formal and informal structure, influenced by both internal and external factors. Researching social enterprise in this region was a particularly complex undertaking given lack of published information on the sector. It was therefore crucial to employ a robust methodology to gain a deeper understanding of the social enterprise concept and how it continues to evolve.

The investigation used a multi -method research approach involving quantitative (postal questionnaires) and qualitative (face to face interviews and focus groups) data collection methods followed by an in-depth multiple case study approach. A parallel investigation on social enterprise support organisations within the study area was undertaken. This method provided an opportunity for the researcher to analyse different stakeholders within the target population and their influence on social enterprise development.

The multi-method research approach also made it possible to strengthen conclusions from the data collected through triangulation (Webb et al, 1996). While quantitative and qualitative data collection methods identified patterns and processes arising from the research, the case study approach was crucial in further exploring key themes emerging from the descriptive statistics and qualitative data. Due to the diversity in types and thematic activities of social enterprises, a multiple case study approach was considered as the most ideal in this investigation. Given the paucity of information on social enterprise legal structures, this approach allowed the researcher to explore new areas and themes where very little theory was available to explain a phenomenon (Kohn, 1997). The case study analysis involved a comparative analysis of four (4) case studies, two under each legal structure being investigated (CLG and CLS), as shown below in Table 3. One of the proponents of this type of case study selection and scrutiny technique is Kohn (1997). He argues that that heterogeneity among case studies selected for scrutiny enhances

generalisability. Two examples of social enterprises structured as company limited by shares were selected from Sheffield. The reason for this is that at the time of the research, such structures were only available in Sheffield. It is important to note that during this period the Community Interest Company (CIC), which has a share capital variant had just been unveiled and no social enterprises within the survey sample had adopted it.

Table 3 - Case studies under investigation

<i>Organisation</i>	<i>Type of legal structure</i>	<i>Type of activity</i>	<i>Location</i>
Case study 1	Share capital (CLS)	Provision of literacy and numeracy tuition Driving tuition	Sheffield
Case study 2	Share Capital (CLS)	Provision of landscaping and environmental consultancy	Sheffield
Case Study 3	Company Limited By Guarantee (CLG)	Sale of organic products	Doncaster
Case study 4	Company Limited By Guarantee (CLG)	Provision of non-accredited training in craft skills	Doncaster

The multi- method data collection approach was underpinned by a critical realist paradigm (CR), which allowed the researcher to gather and analyse data from informants in their natural setting (Baert, 1996; Bhaskar, 1998). This ontology also enabled the integration of the researcher's personal experiences, views and perceptions on the social enterprises being investigated. The researcher conducting this investigation has personally been involved in delivering business advice to social enterprises for over six (6) years in South Yorkshire. This experience has undoubtedly created certain perceptions on social enterprises. The researcher was able to create various views of this reality based on the time spent and practical experience gained on social enterprise development in South Yorkshire (Sobh and Perry, 2006).

Research sample

For the purpose of this investigation, social enterprises operating across the South Yorkshire region comprised the accessible population. It was also necessary to obtain a large sample so that the researcher could obtain a more realistic picture of how social enterprises have evolved in the region (Nesbary, 2000). A large sample would also reduce chances of sampling errors (Graziano and Michael, 2004). Despite evidence of some mapping exercises having taken place in the sub-region, the number of social enterprises operating in South Yorkshire has been difficult to ascertain (DTI, 2003). However based on current knowledge, experience and extrapolation of

figures from information held by sub- regional social enterprise support organisations, it was possible to estimate number of social enterprises in the region. This number was put at no more than 400 social enterprises at various stages of development. The selection of informants for this study was done through the random stratified selection technique of social enterprises operating in South Yorkshire (Ghuri and Gronhaug, 2005). This method assisted the researcher to differentiate the research subjects. Consequently two strata were created namely, a population consisting of individual social enterprises and another of social enterprise support organisations in South Yorkshire.

6. KEY FINDINGS

A total of 218 questionnaires were sent out and 102 questionnaires were returned as table 4 below shows.

Table 4 - Questionnaire returns

<i>Town/borough</i>	<i>Qns sent out</i>	<i>Qns returned</i>	<i>% return</i>
Sheffield	115	65	57%
Barnsley	30	12	40%
Rotherham	33	11	33%
Doncaster	40	14	32.5%
Total	218	102	46%

The results of the questionnaire returns indicated a very high number of social enterprises in Sheffield, in comparison to other boroughs. Perhaps the reasons could stem from the strong economic recovery the city experienced in the in the early 1990s. During this period, the city received over £23 Million of European Regional Development fund (ERDF) which was committed to a number of projects to boost the regeneration of the city (Breakthrough, 2004). The funding had a positive impact on business creation and start-up in the city (SCEDU 2003b). Before 1980, only a handful of organisations were classified as social enterprises, but there has been a huge expansion, since then. This rapid development requires further investigation, given that all four boroughs had severe socio-economic problems shown in table 2.

6.1. Thematic representation of social enterprise activities

Despite deep seated economic problems across South Yorkshire, the social enterprise sector has been steadily growing, signified by the diversity in thematic areas shown in table 5. The respondents came from a wide a wide spectrum of social enterprises across the South Yorkshire. These thematic areas include childcare, training and development and other activities. The researcher has used the term "Regeneration Catalysts" to refer to a specific thematic area. This is an umbrella term that describes social enterprises involved in a number of initiatives, trading and non-trading, in pursuit of achieving socio-economic and environmental objectives. For example there was one respondent whose social enterprise is involved in, environmental consultancy, provision of support to disabled, provision of managed workspace, delivery of Learn Direct Courses and childcare facilities, all under one roof!

Table 5 - Thematic activities of social enterprises in South Yorkshire

Thematic Activity	Number
Manufacturing	1
Arts and new media	11
Environmental	6
Catering	1
Childcare	3
Managed workspace	4
Transport services	2
Training and education	22
Health and well being	5
Regeneration catalyst	20
Employment services	9
Information technology	2
Retail	4
Banking and financial products	3
Advocacy	1
Language promotion and development	3
Commercial cleaning services	1
Communications	1
Security equipment installation	2
Broadcasting services	1
Total	102

6.2. Legal structures of social enterprises in South Yorkshire

Table 6 below shows the types of legal structures that emerged from the analysis of questionnaire returns. The investigation took place before the CIC was launched in 2005, hence its absence from the menu of legal structures shown in table 5. Instead the share capital version illustrated in the table was pioneered in Sheffield, as discussed in section 3 of this paper.

Table 6 - Types of legal structures in South Yorkshire

<i>Type of legal structure</i>	<i>Number</i>
<i>Company limited by guarantee (CLG)</i>	73
	8
<i>Company limited by shares (CLS)</i>	
	6
<i>Co-operative/IPS</i>	
	9
<i>Unincorporated association</i>	
	2
<i>Trust deed</i>	
	4
<i>Not yet constituted</i>	
	102
<i>Total</i>	

Source: Quantitative research data

From the table above, it can be seen that the majority of the respondents are constituted as company limited by guarantee. Traditionally, this is the most common legal structure of social enterprises (Brown, 2003 ;Bank of England, 2003). The results show that companies limited by guarantee, Industrial and Provident Societies and unincorporated associations have been and continue to be part of the landscape of the social sector as some researchers have pointed out (DTI, 2002). The emergence of share capital structures however casts doubt on suitability and efficiency of the current portfolio of legal structures available for social enterprises (Barker 2003). Case study analysis of organisations with CLS legal structures showed that it is possible for a social enterprise to operate on a fully commercial basis while at the same time addressing social and environmental issues. This is inconsistent with views of researchers such as Pearce (2003) and Chell (2007) who see the primary objective of social enterprise being primarily social, not economic. The presence of unincorporated associations implies that these entities are still relevant and playing a significant role in the social economy despite structural drawbacks associated with their use.

6.3. Determinants of legal structures of social enterprises

The results from the investigation revealed key determinants of social enterprise legal structures, given the lack of critical analysis in this area. These are shown below in table 7.

Table 7 - Determinants of legal structures of social enterprise

Determinant	Purpose
1. Ownership of business	
2. Access to funding	
3. Access to equity investments	Functional
4. Availability of legal advice	
5. Prevailing policy environment	
6. Ethical and moral dimension	Normative

Generally it has been assumed that form follows function and that the choice of a legal structure accurately reflects the requirements of a social enterprise (SEL, 2003). This simplistic approach to determinants of a social enterprise legal structure is reflected by Gair (2005). He suggests that choice of legal structure is simply an administrative matter. The above findings however show a new taxonomy of determinants of legal structure of social enterprises. They reveal the complexity of such an exercise, illustrating extra judicial issues, than previously known, that need to be considered when selecting a legal structure for a social enterprise. To illustrate the key functions the determinants play in social enterprise development, they are further split into two categories.

Functional determinants

The functional determinants of legal structure enable social enterprises to address the daily challenges of running a business. The challenges include pressures from macro-economic forces in an increasingly competitive global economic environment, which social enterprises or any business cannot control (Arradon and Wyler, 2008). These determinants are also critical in allowing social enterprises with CLG or CLS legal structure models to make that vital connection with communities they serve. This connection is reflected in their boards of management which draw their membership from the communities of benefit. These determinants, irrespective of the type of legal structure they produce, are also being used as a lever to open more opportunities for social enterprises. On balance, therefore, functionality influences type of legal structure that a social enterprise or entrepreneur selects, as shown in figure 1 below.

Normative determinants

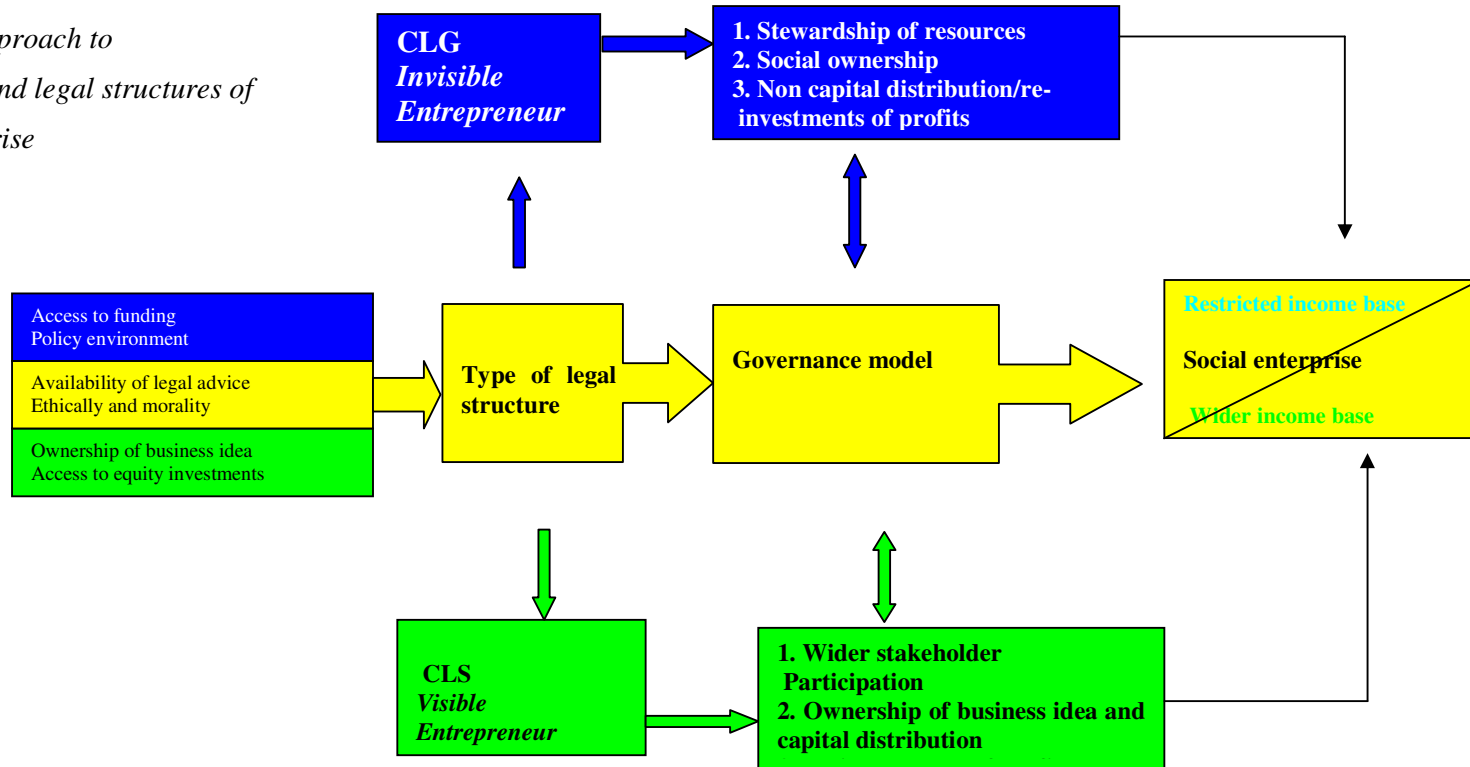
These determinations represent interventions both at policy and local levels aimed at addressing social injustices. Results from case study analysis and descriptive statistics show that institutional interventions and welfare reform are still key features associated with social enterprise

development. Therefore these determinants therefore continue to influence development of contemporary social enterprises in their efforts to be successful agents of social change.

6.4. Legal structures and outcomes of social enterprises

Reading through the results of the investigation figure 1 below shows the emerging story that explains the dynamics and complexity of the evolution of social enterprises. Figure 1 also illustrates how the determinants discussed above result in specific types of legal structure for social enterprise. Significantly, one can see how these legal structures influence the outcomes of social enterprises.

Figure 1 - Approach to governance and legal structures of social enterprise



If a social enterprise intends to pursue a predominantly commercial route then a CLS legal structure would be a most likely option. This type of legal vehicle is shown in figure 1 and represents case studies 1 and 2. The social enterprises have potential to widen their sources of finance as they can attract equity finance. Scrutiny of these organisations' financial information revealed healthy balance sheets as shown in table 8 below. This favourable position allows them to employ full time staff and set aside surpluses for growth. Although case studies 1 and 2 are guided by ethical principles their missions were underpinned by commercial objectives, hence the selection of this type of legal structure.

Table 8 - Financial health of the case studies under scrutiny

	<i>Case 1</i>	<i>Case 2</i>	<i>Case 3</i>	<i>Case 4</i>
Quick ratio	+ve	+ve	-ve	-ve
Balance Sheet	+ve	+ve	-ve	-ve

On the other hand, a social enterprise with a more philanthropic outlook is likely to opt for a CLG legal status, represented by case studies 3 and 4. Ability to access funding and influence of policy environment emerged as strong determinants of this type of legal structure. There is a general lack of interest in pursuing commercial activities with main emphasis being placed on the achievement of social goals. Consequently, these organisations are heavily reliant on restricted grant funding, resulting in severely contracted income bases and negative balance sheets as shown in table 8 above. This poor financial position implies that such organisations are not in a position to employ full time paid operational staff unlike those with CLS legal status. According to the UK National Joint Council pay scales (2008), a manager of an organisation within the social enterprise sector, would be paid a salary ranging from £26K to £28k per annum. Therefore if we factor in salaries that these managers could have been paid into the cost structures of such organisations, they would be rendered insolvent. Therefore this throws doubt on whether these are enterprises or merely projects with specific remits over a given period of time.

7. TYPOLOGY OF SOCIAL ENTERPRISES IN SOUTH YORKSHIRE

However, type of legal structure on its own does not tell the whole story of characteristics of social enterprise. The results of the case study analysis showed the need for further scrutiny of social enterprise characteristics. While there is consensus among researchers that a social enterprise is first and foremost a business, there are still debates on the characteristics of a social enterprise. In addition to known characteristics, the findings of this investigation show that there are additional characteristics that are required by a "battle ready" social enterprise. These characteristics are further analysed to create a typology of social enterprise shown in table 9 below, given the findings of the investigation. The purpose of this typology is to identify a social enterprise in which the characteristics can be fully applied to produce a social enterprise with flexibility required in operating in emerging markets. The resultant typology of social enterprise shown in table 9 is classified as Type 1, 2 and 3 respectively.

Table 9 - Social enterprise typology

SOCIAL ENTERPRISE CHARACTERISTICS										
Social Enterprise	Visibility of entrepreneur (s)	Achievement of social, economic & environmental objectives	Recognition of ownership project idea	of	Remuneration of	Broad based governance model	Flexible legal structure			
Type 1	Highly visible and pro-active entrepreneur (s)	Aims to achieve the triple bottom line but emphasis on achieving economic objectives	Entrepreneur has ownership to project idea and intellectual capital		Entrepreneurs and investors have access to profits	Multi-stakeholder governance model	CLS model			
Type 2	Entrepreneur not always visible or significant	Emphasis is on achieving social objectives with minimal trading activities taking place	Shared/community ownership		No capital distribution to either individuals or organisations	Shared ownership and stewardship of resources	CLG, IPS or CIC			
Type 3	Entrepreneur maybe visible or active	Aims to achieve the triple bottom line	Shared/community ownership		No capital distribution to either individuals or organisations	Multi stakeholder model but subject to restrictions	CLG, IPS or CIC			

7.1. Type 1 social enterprise

Although this type of a social enterprise seeks to achieve economic and social objectives, the main emphasis is on attaining financial sustainability to reinforce its ability to maximise deliverance of value. By focussing on the achievement of economic objectives, the organisation is sending a strong signal that it is a business that seeks to be financially sustainable. Without this objective a social enterprise ceases to be an enterprising concern. Case studies 1 and 2 that have share capital legal structures fall into this category of a social enterprise. A Type 1 social enterprise has an identifiable entrepreneur who is actively involved in the running of the business. The social entrepreneur(s) managing this type of an enterprise has ownership of the project idea. The entrepreneur is supported by a board of directors with the flexibility to allow participation of a variety of individuals and corporate bodies as shown in figure 1. These are a vital source financial resources and well as on-going business advice. Some of the board members have financial vested interests in the organisation. These and the entrepreneurs involved benefit from capital gain. Ownership and access to profits appears to be a catalyst for successful commercial activities for social enterprises with CLS legal structures, as shown by their healthy balance sheets shown in table 7. This social enterprise has a flexible legal structure that allows it to mobilise financial resources from various sources without compromising its social ethos. Given the limitations of the CLG in resource mobilisation, a CLS legal structure is a realistic and practical option for social enterprises. The greatest challenge however is balancing achievement of social and economic objectives (Etchart and Davis 2003, Arbor 2005). This type of an organisation illustrates the evolution of social enterprise. It is therefore inconsistent with traditional views on social enterprises held by researchers such as Paton (2003) and Paton (2003). They argue that commercial activities should not be an integral component of social enterprise activities.

7.2. Type 2 social enterprise

The Type 2 social enterprise's main emphasis is primarily on achieving social objectives with minimal trading activities taking place. This is consistent with the characteristics of case studies 3 and 4 with CLG legal status. The governance structures of such social enterprises are characterised by shared ownership with small groups of volunteers providing both strategic and operational management as shown in figure 1. This typology shows that governance models characterised by shared ownership are inevitably associated with CLG or other similar legal structures such as the IPS. While these may enable these organisations to achieve their social objectives, attainment of economic objectives is not sustainable, given limitations of these legal vehicles discussed in section 3. Type 2 organisations are clearly not fully equipped to operate as fully fledged businesses in the market, as evidenced by poor financial performance of case studies with CLG legal status. The CLG status in this instance, acts as a constitutional barrier in attracting equity finance, a key financial alternative for organisations operating in competitive markets (Conaty and McGeehan, 2000). A significant change in culture, governance models and mindset is required to enable these types of organisations to operate and mobilise financial resources in competitive markets (Leadbeater, 2002)

7.3. Type 3 social enterprise

This investigation refers to this type of a social enterprise as the *ideal type* social enterprise. This perhaps could have been the type of social enterprise that the UK government had in mind when the social enterprise concept was popularised in the 1990s. This organisation, while supposed to be a viable business, is firmly rooted in the community and ensures that any surpluses generated are ploughed back into the organisation to develop its capacity. However findings of this investigation revealed structural drawbacks of this type of an organisation in competitive markets. One key weakness is in the UK definition of a social enterprise itself. It does not appear to have kept pace with the evolution of social enterprise concept and has now become increasingly unclear (Marshall and Lovatt, 2004)

Therefore results of the investigation leave Types 1 and 2 as key emerging organisational types of social enterprises. However Type 2 organisation unlike its pre-cursor (Type 1) is too philanthropic in nature and struggles to remain viable as a business in challenging environments.

CONCLUSION

The results of the investigation showed that it has become necessary to re-visit our understanding of social enterprises as a concept. The overall finding emerging from this investigation is that social enterprise as a concept is perhaps a policy misdescription. The emerging results show that conceptually, the majority of what we know as social enterprises with CLG legal structures are technically bankrupt and insolvent organisations. On the other hand those with flexible legal structures such as share capital models are at a more favourable position to attain sustainability in challenging market conditions. Despite being a less tried option, they are able to engage with the wider market and exploit commercial opportunities as they come without restrictions or modifications to their governance structures. They encourage a much more financially rewarding partnership between social enterprises and private investors, thereby improving inflow of capital into the sector.

From a policy perspective the results show that there is need for rigid categorisation of social economy organisations. They also show that distinction between voluntary organisations and social enterprises is vague. Some organisations, which are essentially voluntary in nature, with no potential or desire to be sustainable businesses are identifying themselves as social enterprises. This categorisation and positioning has implications on policy responses, particularly resource allocation and provision of technical support. The basis of this categorisation comes from the typology of social enterprises mentioned in section 7 of this paper. Therefore Type 1 organisations, characterised by CLS legal structures should be known as social enterprises. They trade and compete in the market to achieve social, economic and environmental objectives. They are more entrepreneurial in nature and are therefore cognisant of the importance of generating revenue to reinforce their ethos. Such organisations should be referred to as "*not just for profit*" as opposed to the traditional definition of non-profit organisations. Type 2 organisations are essentially traditional social economy organisations, the majority of which have CLG legal status. They have been primarily set up to address social aims and trading activities are either limited or totally alien to their operations. These should therefore be known as *social organisations* instead of referring to them as social enterprise. With regards to resource implications, the state should ensure that support is provided to strengthen their capacity to deliver sustainable welfare interventions.

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