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Governance of Social Enterprises in South Yorkshire UK: Towards a new orientation

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Presentation Structure

- Introduction & background –globalisation & social enterprise
- Social enterprises in the UK
- South Yorkshire region & social enterprise
- Methodology
- Key emerging Results/themes
- Conclusion

Globalisation and Social Enterprise

- Globalisation and increased demands for effective social welfare interventions
- Social enterprises evaluating governance models to ensure success and longevity of their operations.
- Financial sustainability also depends on effective decision making at strategic level and ability to engage with a variety of stakeholders outside the social economy.

Contested understanding of social enterprise

- Social enterprises emerged from the social economy
- Subject to various definitions and interpretations-concept still unclear (Carter 2003)
- Dees (2001) describes social enterprise as a hybrid of commercial and philanthropic methods
- Distinct from social economy organisations because of their business-like nature
- Definitions reflect two distinct schools of thought-emphasis on social objectives and economic objectives

Social enterprises in the UK

- History of social enterprises dates back over 200 years though concept relatively new (Hines 2005)
- Over 62 000 social enterprises
- Central to government policy towards tackling deprivation and exclusion.
- SE –a national strategy

Governance of firms

Governance of firms, and the role of the board and its impact on performance, (Nicholson, 2004).

Agency theory (AT) –Separation of ownership and control
Daily et al, 2003; Muth and Donaldson, 1998; Zahra and Pearce, 1983)

Resource Dependency Theory (RDT) -the exchange relationship between the firm and its external environment (Pfeffer and Salancik (1978), Muth and Donaldson, 1998

Stewardship Theory (ST) the role of the board of directors is that of an adviser and strategy formulator-The role of the manager is that of a 'steward' rather than an individual seeking to maximise his/her own utility Muth and Donaldson (1998), Donaldson and Davis(1991).

Governance of social enterprises

- Traditionally governed through democratic models that emphasise the value of participation and stakeholder involvement rather than personal ownership and surplus distribution
- Governance model has its origins in the philanthropic organisations of the nineteenth century
- Pearce (2003) argues that shared ownership is what makes the governance of social enterprise unique and sets it apart from conventional businesses
- The boards of directors or trustees associated with the governance of social enterprises are usually voluntary in nature

Governance- AT and RDT Approaches

Social Enterprise and the AT Approach

- Callen et al (2009) -the role of the board in in protecting the organisation's assets and controlling the activities of managers to maintain costs and prevent misallocation of resources.
- The function of the board is to represent the interests of the community as well as the interests of various constituents and groups and to ensure that enterprise's assets are not abused (Iecovich, 2005)

Social Enterprise at the RDT approach

- Innovative ways of mobilising resources and expertise beyond the social economy -Recruiting directors .
- Board acting as a link to the external environment, which can facilitate access to resources - Provan (1980) and Muth and Donaldson (1998) -'boundary spanning'

Governance of SE and ST approach

- Globalisation and increased competition for resources forcing social enterprises to consider other forms of economic
- Dwindling public and philanthropic support has exposing weaknesses in institutional forms of traditional social enterprises
- Low (2006) – global economic developments forcing social enterprises to move from democratic to stewardship models of governance
- There is evidence that contemporary social enterprise governance appears to be drifting towards a stewardship model because of the complexities of trading associated with democratic governance models .

South Yorkshire Region

- Made up of unitary boroughs comprising, Sheffield, Rotherham, Barnsley and Doncaster
- Economic upheavals of the 1980s, characterised by wholesale closures of mines and massive job losses (Thomson et al 2000)
- South Yorkshire region as a whole contains some of the poorest boroughs in the United Kingdom.
- Major recipient of ERDF funding
- A vibrant social enterprise sector
- Pioneers of one of the first share capital legal structure model for social enterprise (NEWCO)

Methodology

- 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
- Four (4) case studies were selected and given fictitious names to anonymise them. Two had CLG legal structures (The Cafe and the Community Champion) and the remainder (The Landscaper and The Trainer), with CLS legal structures

Case Studies

Organisation	Thematic Activity	Type of legal structure
The Trainer	Provision of basic education & Training	Share capital (CLS)
The Landscaper	Environmental management & consultancy	Share capital (CLS)
The Cafe	Environmental preservation and renewable energy	Limited by Guarantee (CLG)
The community Champion	Provision of non-accredited skills training	Limited by Guarantee (CLG)

Results- Board Structure

CLG

- Boards consist entirely of unpaid volunteers.
- Individuals on the boards of these organisations not selected on the strength of the specific skills or knowledge that they bring to the organisation, but their passion for the community and its well being

CLS

- In addition to typical for-profit shareholders, voluntary organisations and their respective lead entrepreneur hold some shares.
- A distinct move from traditional forms of participative and democratic management principles

Board Functions

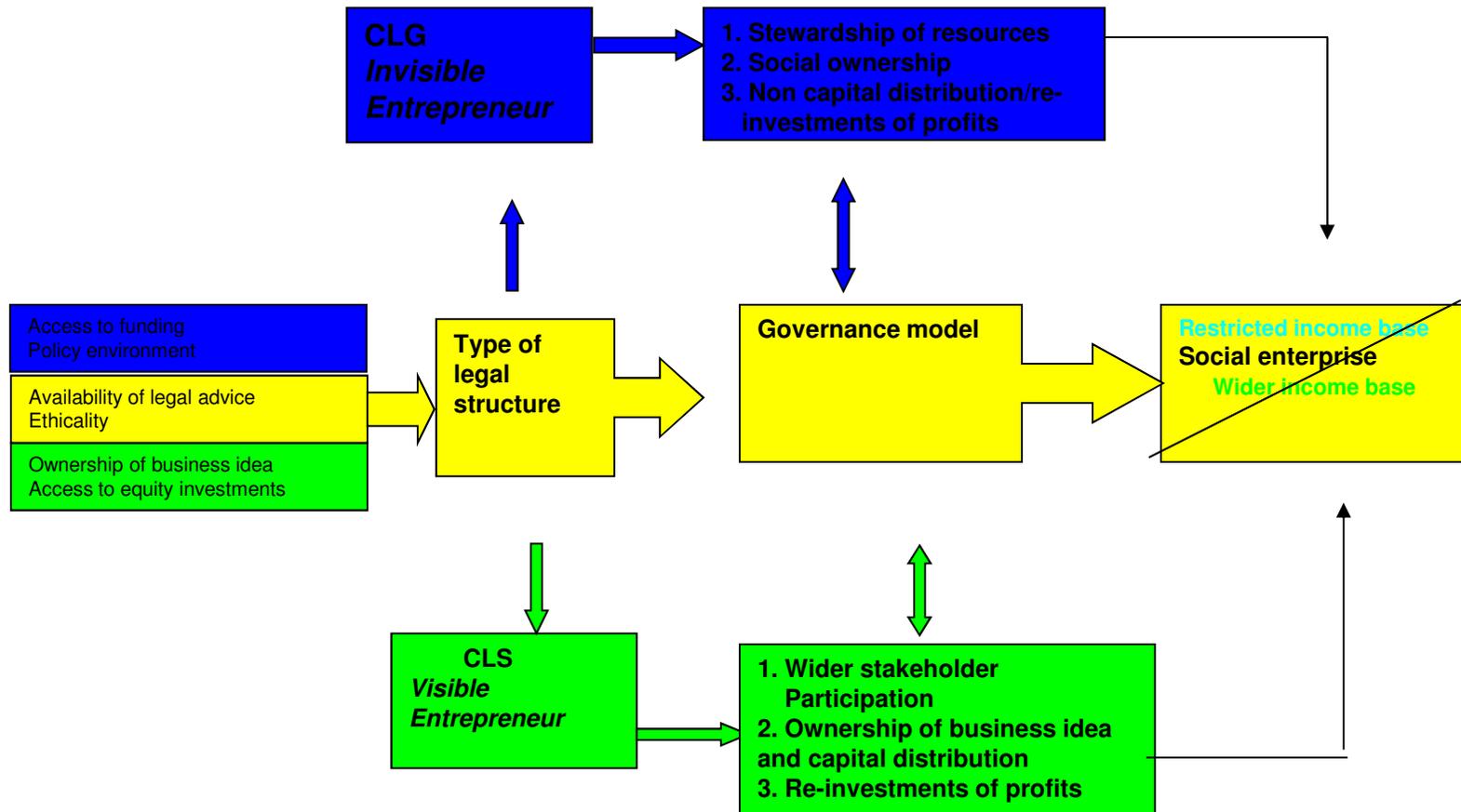
CLG

- Democratic governance principles- social ownership and participation of community members in the running of the organisation.
- Boards control and direct the organisations' day to day activities. Agency theory ?- the boards are agents of their stakeholders
- Duties largely fiduciary i.e. holding the organisation and its assets in trust.
- Limited enterprise culture and failure to clearly separate the roles of the board and executives.

Board Functions

CLS

- An attempt by the board to provide autonomy for senior managers to work in the best interests of the organisation.
- Lead entrepreneurs performing the CEO role - mandated to make operational decisions
- Mechanisms to co-opt individuals or funders onto their boards for the benefit of their organisations. Funder included on the board and purchased dividend bearing shares



Tentative conclusions

- **Democratic governance models of social enterprise are still relevant in the social economy**
- **Innovation in governance models critical for success in competitive markets.**
- **Moving towards for-profit stewardship models that are driven by share capital legal structures has opened up opportunities that traditional social economy organisations cannot exploit.**
- **Policy pointers**
 - **Need for further exploration of the stewardship model for social enterprise**
 - **Support to build capacity and sustainable business models**