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**The Experience of Participation and Governance within Social  
Enterprises**

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## **The Experience of Participation and Governance within Social Enterprises**

### Introduction

Social enterprises, businesses which combine a social dimension with entrepreneurial flair, are at the centre of the thinking of the present Labour government. These organisations are seen as critical for aiding the delivery of a number of the Government's core objectives:

- helping to drive up productivity and competitiveness
- contributing to socially inclusive wealth creation
- enabling individuals and communities to work towards regenerating their local neighbourhoods
- showing new ways to deliver and reform public services and
- helping to develop an inclusive society and active citizenship.

(DTI 2002;p.7)

These high expectations place a premium on two critical issues within social enterprises which are explored in this paper, that of participation and governance. The issues are intertwined. In order for social enterprises to deliver on social inclusion dimensions, they must demonstrate an ability to deliver on participation. However, in order to deliver on sustainable wealth creation in combination with efficient delivery of social benefits, social enterprises must be rigorously governed.

The paper begins by offering clear definitions of the key terms employed in the analysis and discussion. The second section of the paper offers an analysis of the current experience of participation and governance within social enterprises. This section focuses specifically on two forms of social enterprise,

- Company limited by guarantee
- Industrial and Provident society

These two forms have been selected for analysis as they have been the subject of much government attention as delivery mechanisms for social provision. A mini case study for each form based on actual social enterprises is used to illuminate key points around participation and governance. In addition, the case example for company limited by guarantee tackles head on the issue of minority group representation in social enterprises.

The final section of the paper raises a number of issues that are presented by the rise of social enterprises. It looks forward and suggests that participation and governance will be two factors that will contribute to determining how successfully social enterprises deliver on the government's key objectives, and whether such enterprises will in the process become a dominant organisational form for the delivery of social provision.

#### Definitions of key terms

This section offers clarification of how terms are used in the subsequent sections of this paper. It is important to be clear about the use of language when discussing the critical issues in jargon-dominated sectors. Three key terms are defined in this section:- social enterprise, governance, and participation.

- Social Enterprise

The Social Enterprise Unit, located within the Department for Trade and Industry, has promoted a definition of the term 'social enterprise' which will be employed throughout this report,

'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.'

(DTI 2002; p.13)

This definition was created by the Social Enterprise Unit in order to capture a range of organisations which have both a sustainable business model and explicit social aims. The emphasis on generating a trading surplus is an attempt to distinguish social enterprises from charitable social providers which are principally grant-dependent. The term 'social enterprise' therefore covers a range of organisations including community-based businesses, mutuals, credit unions, and co-operatives.

- Governance

Governance can be generally defined as 'holding individuals responsible for their actions by a clear allocation of responsibilities and clearly defined roles' (Rhodes 2000;p.56). Rhodes (2000;p.56) further offers the distinction that governance is about the steering of the organisation, that is the decisions made at policy level, rather than the rowing or actual delivery of an organisation's services. Governance commonly refers therefore to the highest level of management within an organisation, that of strategic level decision-making (OECD 1998).

It is assumed for the sake of simplicity that there is a clear dividing line between management and governance. No doubt readers who are experienced in the area of social enterprise will recognise that the maintenance of this split does not always exist in practice.

It is not uncommon for those responsible for governance to intervene in the day-to-day management of the organisation for a whole host of reasons. However in order to conduct a discussion the fiction of this boundary will be sustained for the duration of this paper.

- **Participation**

Participation in the context of social enterprises, as was suggested in the introduction, refers to the involvement of members of communities in both wealth creation and in work towards regenerating their local neighbourhoods. The Active Community Unit located within the Home Office emphasises the need to 'encourage people to become actively involved in their communities, particularly in deprived areas'.

One model of participation in regeneration offers four core dimensions to the concept:

**Influence:** Ensuring that participation leads to real influence over what happens in regeneration schemes at both a strategic and operational level.

**Inclusivity:** Valuing diversity and addressing inequality in order to ensure inclusive and equal participation. This may mean targeting specific groups and taking positive action.

**Communication:** Implementing clear information processes, transparent and accessible policies and procedures.

**Capacity:** Developing the understanding, skills and knowledge of all partners; and the organisational capacity of communities and public agencies.

(Yorkshire Forward 2000;p.6)

It should be noted that the first dimension of participation refers to strategic level influence, i.e. the governance of regeneration projects.

These dimensions also explicitly give recognition to the fact that ensuring true participation may require that specific groups are targeted with additional support before they are able to participate. In addition, the point is also made that participation should produce outcomes of increased capacity to play a more involved role in society.

#### Experience within the Social Enterprise sector

In order to frame an examination of the issues of participation and governance within social enterprises, two particular forms of social enterprise are selected for discussion:-

- Company limited by guarantee
- Industrial and Provident society

#### Company limited by guarantee

This refers to organisations that do not have share capital, are regulated by company law, and whose management committee consists of directors who must register with Companies House. This is an increasingly common organisational form of social enterprise.

An example of a social enterprise which has been constituted as a company limited by guarantee is The Thornbury Centre which operates in Bradford, West Yorkshire. The Centre manages a multi-million pound community centre which slightly confusingly is also known as The Thornbury Centre. The company was formally incorporated at Companies House in November 1998 and registered as a charity shortly afterwards.

The Centre operates in a multi-cultural context. As such it has attempted to provide services which are accessible to all sectors of the community. For example the Centre is used by both Christians and Muslims for wedding receptions.

However it is not only in the area of service provision that the Centre has managed to address Black and Minority Ethnic (BME) issues. It has also made efforts to involve BME representatives in the governance of the organisation.

As the Centre's Business Plan for 2002-2005 states,

'The Centre aims to provide community led and managed services in the neighbourhood and seeks to do this by encouraging and enabling local people to develop their own agendas for change' (p.4)

A key mechanism for enacting this aim is through formal participation of community members in the governance of the organisation. This is made possible through the articles of the company which specify that there shall be a maximum of 17 directors on the board, of whom three shall be from the local community, with a further four being appointed from groups using the Centre.

One director representing the community is a Hindu, while another director is a prominent Muslim. The significance of these appointments must be seen in the context of the origins of the community centre which the company manages. The centre was built by St.Margaret's Church, and therefore is essentially a Christian owned building.

#### Industrial and Provident society

The Industrial and Provident Society is a corporate form, which carries limited liability. It has its own legal identity, and can hold property and conduct trade. This form of social enterprise is regulated by the Financial Services Authority. The Society belongs to its members. It is not answerable to shareholders, so the profits go back to members for example through better performing products, and sometimes through discretionary payments to members from surplus funds.



The Druids Sheffield Friendly Society, based in Rotherham, is an example of this form of social enterprise. The Society offers practical and affordable savings schemes and insurance plans across England. It was established in 1858. The Society collects contributions at community level through a network of what are referred to as Lodge Secretaries, who receive a small income for providing this collection service.

There is no qualifying criteria for a member to become a lodge secretary other than the ability to demonstrate that a small number of people are interested in becoming members of the Society, having been identified by the prospective secretary. These lodge secretaries receive training and support from the Society. Secretaries keep their own accounts which are then audited twice a year by head office.

Once someone has been appointed as a lodge secretary they may be put forward by the members of their lodge for election to the main forum for governance which is provided by the Committee of Management of the Society. Therefore the Society provides an accessible route to both a limited level of employment, the opportunity to gain accounting and clerical skills, and the possibility of influencing the strategic direction of the Society.

These two forms of social enterprise illustrate how participation in governance is actively encouraged by the organisational structure. A range of stakeholders including users, members, and community representatives are able to have an influence on the governance of the organisations concerned. The efforts of social enterprises such as the Thornbury Centre should be particularly emphasised given that prominent coalitions such as Social Enterprise London have pointed out that it is imperative that work is directed towards,

'building a better understanding of the needs of social enterprises in black and minority ethnic communities'

(Bland 2002;p.11).

## The future

This final section looks forward and highlights factors within the social enterprise sector which may have a negative impact on participation in governance. In particular, attention is paid to the potential effect of the increasing demand for professionalism in the governance of social enterprises.

It is already widely acknowledged that within the not-for-profit sector generally the demand for more competent trustees has grown. A recently published review of the sector by the government concluded that often,

‘...board members lack the necessary skills, knowledge and expertise’  
(Strategy Unit 2002;p.69)

This need for competence is likely to become an issue within the social enterprise sector as the demands made of those in the governance function are significant under the regulatory frameworks that apply. This burden of company regulation has increased in recent years as a response by the government to a number of corporate scandals across the western world.

One example of this concerns the changes to the law for insurance providers which increases the burden on social enterprises offering such services, for example Industrial and Provident Societies. These changes explicitly place an emphasis on the governance of the enterprise,

‘Our Principles for Businesses and SYSC (Senior Management Arrangements, Systems and Controls)...place responsibility on the senior management of firms to set up and maintain proper systems and controls, to oversee effectively the different aspects of the business and to show that they have done so.’

(Financial Services Authority 2002;p.2)

Such regulatory changes are likely to reduce the involvement of less qualified participants both because social enterprises may become more selective in their recruitment of participants into governance positions, and because potential participants may become more reluctant to engage in such demanding activities.

Social enterprises may well attempt to raise the bar for qualifying to become a participant in governance in order to ensure that board members are capable of carrying out their duties. Within social enterprises constituted as companies boards have a significant role under company law as the board,

‘...bears the ultimate responsibility for the integrity of the corporation’s financial disclosure’, and ‘...general compliance with law’  
(OECD 1998;p.49)

This level of responsibility has reportedly been an inhibitor to participation in the charities sector:

‘Trustees are personally liable for any loss caused to their charity by a breach of trust on their part. Although personal liability is very rarely enforced against any trustees in practice, the spectre of liability puts people off trusteeship.’  
(Strategy Unit 2002;p.69)

Although being a board member of a social enterprise is similar to that of a trustee of a charity, the responsibility for governing the organisation may be exacerbated by a skills deficit within social enterprises. There may well be a lack of experience in social enterprise governance as the government has noted that recently constituted social enterprises,

‘...often have boards of directors or trustees who come from a voluntary sector rather than a business background. This can lead to a lack of business focus and prevent social enterprises from truly reaching their potential.’  
(DTI 2002;p.62)

The technical demands made on social enterprise board members are significant. Companies are not easy organisations to run, as one report on corporate governance has suggested,

‘The board should understand the inherent prospects and risks of the strategic choices of the corporation...this requires that board members have a high level of professional experience’

(OECD 1998;p.48)

This scenario echoes the experience of participation in the governance of not-for-profit housing providers where the view currently being expressed is that,

‘...complex and competitive organisations, non-profit as well as profit-seeking, need competent people in the prime of life to govern them. Retirees no longer fit the bill. To get and keep good people, you need to pay.’

(Walker 2003;p.10)

Similarly a voluntary sector review recently reported that,

‘Small and medium-sized charities particularly seek to recruit younger trustees, but trustees tend to belong to older age groups.’

(Strategy Unit 2002;p.69)

This proposal that there needs to be younger participants in governance, aided by the paying of some form of fee, may yet spill over into social enterprise thinking. If so it is likely to create a further barrier to participation by those that the government most keenly wants to target in this exercise, i.e. members of disadvantaged communities. Such communities are unlikely to contain a number of potential participants who have much experience of managing complex organisational and financial situations.

One response to this situation currently being considered by the government is the training of board members,

‘...to enable non-business members of Boards and management committees to understand the different types of financing available, together with their risks and benefit.

(DTI 2002;p.62)

This could facilitate this aspect of the participation problem as it would then be possible to appoint board members who were not yet the finished article. However it only addresses the issue of competence once participants have actually become a part of the organisation. There still remains the further issue of identifying potential participants and encouraging them to participate in governance.

#### Conclusion

The future prominence of the social enterprise sector in the UK seems assured given the support which the government is demonstrating towards it. For example, business advice tailored specifically for social enterprises is being rolled out through the Business Link network. The government therefore clearly believes in social enterprises as a mechanism that can and should,

‘...create ways for local people to take ownership of their futures, to be actively involved in designing and implementing solutions to fit their own, or their community's, needs.’

(DTI 2002;p.24)

This requires participation at the highest decision-making levels within social enterprises. Therefore steps must be taken to ensure that access to social enterprises is maintained and not simply restricted to a new elite group. If social enterprises are to maintain their ability to deliver on participation alongside sustainable social provision, the government will have to address the challenge of maintaining accessibility to participation in governance.

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