FINANCING SOCIAL ENTERPRISE: SOCIAL BRICOLAGE OR EVOLUTIONARY ENTREPRENEURIALISM?

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1. Introduction
In recent years the financing of social enterprises (SEs) has been described as a severe constraint on their growth (Social Enterprise UK, 2011). According to the Bank of England (2003), for example, the lack of appropriate finance is the single most important constraint on the development of SEs. In this view SEs have been too dependent on grants and need to diversify their sources of funding by taking out loans and securing equity finance. But making such a move is not easy, as several studies have described a funding gap. The Social Enterprise Coalition (2007), for example, argued that young and growing SEs are most likely to suffer from difficulties in accessing investment and therefore often lack capital (see also Emerson et al, 2008). The view that there has been an insufficient supply of development finance for social enterprise (SE) has been influential in policy debates and, consequently, several measures designed to promote its supply have been introduced (The Cabinet Office, 2011). New Labour provided a certain amount of funding through schemes such as Futurebuilders and Capacitybuilders, and the Coalition government is intent on further increasing the supply of finance to SEs.

However, partly as a result of such initiatives, there are some claims that the financing of SE may be maturing, involving a growth in loans, ‘near equity’ and ‘patient capital’ (Peattie and Morley, 2008; Mendell and Nogales, 2009). The social investment sector has grown in the UK since 2002 (SITF, 2010; The Cabinet Office, 2011). Several studies suggest that SEs’ demand for finance may indeed be changing. While they have traditionally relied on grants, it has been argued that SEs are increasingly seeking support from banks and venture capitalists (Bryson and Buttle, 2005). A study by SQW (2007), for example, found that, while the funding of the entire third sector is shifting toward a greater reliance on earned income, SEs are more likely to make use of loan finance than other third sector organisations. Nicholls (2010) argues that the development of social investors and Community Development Finance Institutions (CDFIs) has provided SEs with a wider choice of local financers. As a result, some have surmised that the financial support of SE may be becoming more geographically...
variable. The geographical distribution of CDFIs is patchy so it may be that SEs encounter varied and fragmented local financial contexts (Lyon and Ramsden, 2006).

It is not yet clear, however, how much of a difference these changes in financial support have made to the majority of SEs. The first part of this paper, therefore, addresses the degree to which the funding of SEs has shifted towards a greater reliance on loans and the extent to which it has become geographically diversified. In general, it finds a very limited degree of change and limited evidence of local diversification in financial environments. The underlying reason for these findings is the low level of demand from SEs for conventional business finance, including loans. The second part of the paper considers how two theoretical perspectives can help to explain this low demand. It compares the idea of bricolage with an evolutionary perspective on social entrepreneurialism, and argues that these perspectives highlight the way in which many SEs have adapted to their environments and experiences by adopting practical forms of financial survival and improvisation that do not easily translate into formal business plans and applications for development finance. In the following section we briefly outline these two theoretical perspectives. We then explain our methodology and present our findings on the limited degree of financial diversification. Sections 5 and 6 return to the two perspectives to examine their applicability to our case studies and the reasons for the generally low demand for debt finance.

2. Two Perspectives on Social Enterprise

While the literature on SE has grown rapidly, SE research has often lacked a rigorous conceptual grounding and, consequently, there are few in-depth studies that examine SE processes and practices through theoretical lenses (Peattie and Morley, 2008). In this paper we attempt to redress this gap by borrowing and combining two theoretical approaches that have proved illuminating in the fields of business, innovation and economic geography – bricolage and evolutionary economic theory. These theories were selected as we examined the findings of our interviewees and compared and contrasted these findings with relevant literature. The concept of bricolage has been used in both innovation and SE literature and it resonates with some important opinions held by our respondents. At the same time, much research into SE has lacked a historical perspective and has not studied how SEs have developed and evolved. We therefore also chose to examine whether an evolutionary theoretical view would help to illumine key questions about the historical pathways of our SEs and how these had shaped their financial decisions.

The first perspective on SE growth and resourcing considered here is based on the notion of bricolage. This concept is most commonly associated with the highly influential (and controversial) anthropologist Levi-Strauss (1967) who famously adopted the term as a metaphor to encapsulate processes of cultural hybridization. Subsequently, numerous scholars have adopted Strauss’s famous aphorism of ‘making do with what is at hand’ to study a variety of contexts, including entrepreneurial ones (Baker and Nelson, 2005). For example, Di Domenico et al (2010) propose that the distinctive feature of SEs is that they are located in areas where private markets function poorly and must grow with only limited resources. Bricolage here denotes resourcefulness and adaptability based on recombining elements for new purposes and innovation (Garud and Karnøe, 2003). According to Di Domenico et al (2010) a key dimension of social bricolage is said to be a refusal to be constrained by resource limitations. SEs utilise their governance and stakeholder networks to access and construct resources, and they deploy persuasive tactics to build legitimacy and financial sustainability. In this approach, “the
lack of resources pushes the SE to use all available means to acquire unused or underused resources that are capable of being leveraged in a different way to create social value” (Ibid, page 699). This view implies that it is not surprising that SEs are not seeking conventional business loans or equity finance, because they have instead adapted to working in resource poor environments by re-using redundant and social capital.

A rather different second theoretical perspective involves applying evolutionary perspectives on entrepreneurial behaviour to SEs. This perspective emphasises the reciprocal interactions between process and context and the ways in which nascent entrepreneurs assemble knowledge and human and financial capital (Aldrich and Martinez, 2001; Breslin, 2008). Again, the approach recognises that nascent entrepreneurs start with a lack of assets and are forced to draw on their own savings and personal assets. However, it argues that most entrepreneurship involves the inheritance of routines and knowledge from past experience. The habits and competences learnt in a parent firm are often transferred into new spin-off ventures (Klepper, 2002; Klepper and Sleeper, 2005). Many new enterprises, in this view, are not truly innovative but conformists to established patterns of doing things and only a few are ‘innovative deviants’. ‘Reproducer’ organizations are defined as organizations whose routines and competencies vary imperceptibly from those of existing organizations in established populations (Aldrich and Kenworthy, 2005). At best, they contribute only a small degree of incremental knowledge as they organize their activities in the same ways as their predecessors. According to Aldrich and Kenworthy (2005, p. 31), “Reproducer organizations are severely constrained by the boundaries and institutional norms imposed by existing organizations, and they are dangerous models because they are a mix of adaptive and maladaptive forms. Innovator organizations face not only legitimization issues but also rigorous selection forces that may be impossible to overcome”. Hence, as a result, the majority of small firm start-ups do not survive.

Applying this perspective, we would expect to find that SEs are shaped by the institutional setting in which their leading staff learnt their key capabilities. Another major evolutionary theme concerns the relationship between the adaptability of firms and the uncertainty and volatility of their environmental context. Many enterprises are uncertain about the selection pressures exercised by their environment and fail to adapt accordingly. This yields a much less optimistic perspective on their prospects. SE capabilities will tend to be inherited from related experiences so that many are reproducers of existing practices rather than genuine innovators. We would expect them to rely on well-tried methods of funding and this may constrain their growth.

These two theoretical perspectives offer both contrasting and complementary insights into understanding SEs and their financial practices. In the first we would expect to see SEs making do, improvising and adapting to resource constraints. This suggests that although they exist in resource-poor environments, they are not limited by a lack of appropriate finance and manage to leverage resources in innovative ways. The second evolutionary perspective, however, implies that SE financing will be dominated by a reliance on learned habits and practices and the contexts in which social entrepreneurs have operated. Financial constraints are likely to be much more significant and in uncertain environments these are likely to threaten their long term survival. In what follows we consider which of these two perspectives is most appropriate to our case studies of SEs and how far they throw light on their funding strategies.

3. Methodology
It is widely recognized that SE research has been dominated by case studies and biased towards analysing the most successful enterprises (Dacin, Dacin and Matear, 2010). Our research design therefore set out to involve a broad range of SEs including small and struggling ventures, rather than concentrating solely on the well-known success stories. At the same time, however, research into SE finance and its problems using extensive research designs has produced quite vague snapshots that do not probe how the use of finance is related to the development, context and priorities of the enterprise in question. We chose four cities in different regions of England in order to ascertain if we could discern the appearance of local differences in funding environments. We first compared Newham in East London with central Birmingham. While East London has been described as providing a dynamic social enterprise environment (for example see Amin et al, 2002), Birmingham has received some criticism for lacking a coherent SE strategy (Mawson, 2010) and we expected to find significant differences between the two areas. Nevertheless, CDFIs located in both areas have received publicity in recent years and hence one might reasonably expect to find local development and diversification in SE financing. In addition, we also wanted to compare a Southern city with a Northern city that had received significant EU and regional aid, in order to ascertain whether this regional context had been translated into significant differences in SE support. We therefore decided to compare Southampton and Liverpool. The research for this paper is therefore based on interviews with 40 self-designated SEs in four cities in England; Southampton, Birmingham, Liverpool and Newham, London.

Our research questions focused on the ways in which the use of, and demand for, finance is related to the development and strategy of each enterprise and we therefore chose to use in-depth interviews with managers. The SEs were identified from local lists, associations and internet-based publicity material and through ‘snowballing’ and recommendations from interviewees. While a conclusive judgement about the representativeness of our sample is impossible because of the difficulties in getting a definitive sampling frame, our sample of SEs broadly reflects much of the diversity that is to be found within the sector in the UK as revealed by a series of national scale surveys (e.g. IFF Research, 2005; OTS, 2009). Our sample spread is consistent with existing knowledge about the characteristics of SEs and we selected enterprises in different sectors. Over half of our SEs are involved in education or training of some sort, typically for disadvantaged groups, the rest being involved in community development and services of some kind, such as business services, support to other SEs, health and social care, manufacturing and recycling and environmental work. The organisations interviewed included a range of different legal types: Companies limited by Guarantee (CLGs) with charitable status; Community Interest Companies (CICs); PLCs, Charities, and Industrial and Provident Societies (IPSs). Most were small enterprises but in each location we also made sure that we interviewed several larger operations that were constituent units in national organisations. In terms of their age, it was often difficult to determine precisely when they had been established as SEs as many had been operating as trading arms of charities and had changing links with other organisations. Others had appeared recently from the ashes of preceding organisations that had gone into receivership or been taken over. While a few of our SEs had been trading for over twenty years, the majority were less than ten years old. In summary then, our sample consisted mainly of SEs located in central and deprived urban areas. This may have shaped our results as it is likely that such organizations are more reliant on public sector funding than other types of SE (see Social Enterprise UK, 2011).
The interviews were conducted in person with a manager in each enterprise. They included a set of questions on the origins of the enterprise, its investment history, perceptions of key constraints and financial sustainability, and the networks and support organisations used by the respondents. These interviews were supplemented with five interviews with intermediaries in third sector banks and in other SE support organisations. Interviews ranged between thirty and ninety minutes and all were transcribed and coded according to key themes. Our analysis involved the comparative evaluation of comments under these themes, and a search for patterns and relationships in the responses that might explain their causes.

4. Financial Diversification?

The overwhelming majority of our urban SEs continued to rely heavily on public sector grants and contracts. Typically, enterprises had benefited in their earliest stages from grants awarded either by their parent charities and charitable trusts, or by public sector bodies. But there was only limited evidence of what has been termed grant dependency (Macmillen, 2007). Instead many SEs were deeply engaged in contract work. The major part of the enterprises’ trading income came but from contracts with public sector bodies such as local authorities, the DWP, and health sector agencies. A substantial minority of our interviewees expressed some dissatisfaction with grant funding in that they felt that grant awards were becoming increasingly demanding and conditional on specified outcomes. Several argued that the distinction between grants and loans is highly blurred. But the predominant response to this type of dissatisfaction was an intention to move towards seeking more contracts rather than attempting to secure forms of development and loan finance. As one SE, emerging from the public sector in Newham put it, “If we wanted some capital investment for new machinery then we would perhaps go knocking on the bank’s door. But up until now we’ve not had to do that so we’ve had the nice deep pockets of the Council to dip into” (Newham 5, education and training).

The vast majority of our SEs (75%) did not have, and never have had, a loan. Whilst some had overdraft facilities, the vast majority of these SEs simply did not see the need for borrowing which they typically saw as a ‘last resort’. In addition, amongst the ten SEs that did have loans, in five cases the loans were small and they were not part of some major expansion plan for the organization. Of those without loans, ten SEs said they might consider loans in future, but they were very conscious of the risks entailed. In most cases, SEs argued that they did not need a large capital injection followed by the burden of repayment. Many stated that they lacked the necessary assets to secure loans and some argued that their Directors were risk averse and would refuse to take on personal liability for the credit (see also Venturesome, 2008). Instead of a capital injection, many preferred what they termed an organic, slower style of growth. Indeed it was widely argued that SEs should not grow as quickly as conventional businesses, given that they have to give more consideration to the needs of their workers or service users.

In some cases a cautious development strategy was justified in political and ethical terms. Given that reinvestment of surplus was the predominant means of growth, it was widely felt that the need to support users was a key constraint on rapid expansion as this ruled out increasing prices for products. The vast majority of the respondents aspired to expanding their trading income, whilst also avoiding ‘mission drift’ and undermining their social objectives by raising the prices of their services (Hynes, 2009; Shaw and carter, 2007; Hudson, 2009; Teasdale, 2010).
Our research therefore confirmed that most SEs hold a very cautious attitude towards growth and expansion because of their fear of losing control, worries over recruitment and the loss of their social ethos (Phillips, 2006). In addition, some of the respondents had experience in SEs that had got into difficulty or even folded because of overextending themselves. There was even less interest in equity-type investment and only two of the SEs had received equity investments, neither of which were from orthodox venture capital investors. Most interviewees were not aware of any social-equity schemes or quasi-equity schemes and dismissed the relevance of equity to their slow growth, small surplus and social value strategies.

The aversion to loans was not confined to those SEs who were most dependent upon grant income (although it was most intense in this group) – unstable markets whether from the public or the private sector were also crucial in determining attitudes towards borrowing. Thus, the aversion to borrowing was to be found amongst enterprises of varying size and age. As might be expected, some of the embryonic, younger SEs are highly grant dependent, and in no position to take on significant loans since they are not yet breaking even. Indeed only 15 of our 40 SEs stated that they had made a financial surplus in the past year and in the vast majority of cases these were very small (typically below £10 thousand) and had been preceded by recent annual deficits. However, some of the larger SEs with significant turnover expressed a reluctance to borrow as they do not see the merit of this strategy. We were also unable to discern any evident relationships between the legal form of the SE and attitudes to debt.

Interestingly, the aversion to loans was not primarily the outcome of unhappy experiences with the conventional business lenders. Only two respondents expressed the view that banks do not understand SE. Most had not made any applications for commercial loans. Thus there was no expression of the widely held view that banks were reluctant to lend to small businesses. Instead many SEs (both with and without loans) believed that, if they had an appropriate business plan and income stream, they would not have great difficulty in acquiring a loan. Some claimed that investors – and society as a whole – underestimated the social and longer-term economic benefits that accrued from SE activity, but there was no sentiment expressed that this should determine lenders’ criteria. Amongst the ten SEs that had loans we could find no major signs of discontent with their funders. Roughly half of all the loans were from commercial banks and no significant issues were raised, although some expressed a preference for finance from CDFIs and other ethical banks.

Attitudes towards CDFIs were mixed. One SE that had held a loan from a CDFI was put off further borrowing by the high interest rates and another with borrowing from this sector claimed they would try to avoid similar organizations in future. Our interviewees not only saw commercial loans as expensive (Hynes, 2009), many also argued that CDFI loans were surprising costly. One interviewee expressed praise for their loan from a CDFI because of the associated mentoring that they had received. But this was the exception and our research suggests that CDFIs have not had a large influence on access to funding for SEs. Despite the localised nature of most CDFIs, a small number of national CDFIs have been most actively involved in SE lending (NEF, 2007; Joy et al, 2011). Instead, the main factor behind differences in local funding regimes was the amount of support available from public sector agencies especially local authorities, regional development agencies, the local PCTs and other health organizations.

In summary then, our research found a low degree of change in terms of the sources of finance and also a low level of demand for loan capital. This, of course, begs the
question why demand has remained so low. There are many well-known information gaps and asymmetries in social finance, but the reasons appear to be more deep rooted than these market failures. Some reports have hinted that there is a ‘cultural aversion’ to loans among many SEs but such a shorthand term needs further explanation. We therefore turn to the idea of bricolage.

5. Bricolage and Resourcefulness

The notion of bricolage is undoubtedly relevant to explaining this aversion to loan finance and the cautious financial strategies of most SEs. The idea captures the way in which SEs see themselves and describe their capabilities for surviving in difficult circumstances. When respondents were asked to describe the chief advantages of their organization, words and phrases such as ‘lean’, ‘flexible’, ‘quick on its feet’, and ‘adaptable’ pepper our transcripts. For example, a London based SE contrasted their approach to that of conventional SMEs:

If we grow, what we would do, we can always find another railway arch in London. The people we employ here are incredibly well skilled at actually eking a living out of a very hard life, you know. I would describe us, we’re a bit like some sort of strange old dung beetle that lives in the desert, where you’d never expect anything to exist. (Newham 3, training manufacturing).

Most SEs emphasised that they want to ‘live within their means’ and have become adept at making the most of limited resources. Many preferred managing on very little to taking on loans. Many younger SEs relied on small donations from linked charities together with various bootstrapping techniques:

There was a certain amount of tables and chairs and sort of basic infrastructure there already, we didn’t have to worry about that. Eventually we had to replace all that and that was from going down to the tip and going to Oxfam furniture store and going onto Freecycle and that sort of thing and so we’ve got no bank loans to pay off. I put some money in and (anonymised) partner put some money in and that’s gradually getting paid back, interest free, as we go on. So that amount is sort of diminishing and we’re now sort of pretty much self-sustaining with no big loans to pay back ((Southampton 4, community development).

Instead of seeking external investment, many SEs recycled resources, just as the bricolage view suggests. In addition, many of our interviewees described how they relied on voluntary labour, and often, even when they paid staff, they paid below market rates. Many combine some limited remuneration with a large element of volunteering.

Social enterprises also frequently exploit corporate networks and persuade contacts to donate equipment. Recycling organizations, in particular, rely heavily on corporate support. For example, a computer recycling enterprise in Southampton had begun with donations and grants:

So we started, as I said, we got this derelict building. We started getting stuff given to us. We managed to get some lottery funded environmental money that was help do recycling. I can’t remember which way round it was, but we got two years of money to help us get business recycling and then I think we got a
couple of years to do domestic recycling. (Southampton 3).

However, while the concept of bricolage provides some important insights, our interviews suggest that the perspective tends to over-estimate the degree to which resourcefulness and adaptability allow SEs to achieve financial sustainability. Of course, SEs focus on social benefits and it is possible that their social outcomes are highly innovative whilst their finances remain marginal. But the social bricolage perspective seems to exaggerate the benefits of such innovation. As noted already, only a minority of our SEs reported that they had made a financial surplus in the past year and, in most cases, these surpluses were small. Many SEs had tangled and complicated financial links with related charities and trusts, so it was hard to discern the health of their balance sheets and the direction of net flows of capital. For example, one SE stated that it returned a small financial surplus to its charity but then noted that this charity provided trainees with funding to enable it to provide its products. We found that in many cases parent charities had subsidised their enterprises and allowed them to survive in deficit years.

Indeed, most of our interviewees were highly conscious of the marginality of their undertakings. This was a prime reason why they had adopted a slow growth strategy and were highly cautious about expanding into new products and services. Several had recent experience of going into administration and financial restructuring. Conscious of their vulnerability, some SEs were part of an organization with a number of arms so that if (as seemed quite likely from past experience) one limb were unsuccessful, the whole body would not be affected. Some longer established enterprises concluded that, in hindsight, bricolage is not a route to long term sustainability:

There wasn’t any money changing hands, other than the occasional grant and donation. So the service was reliant wholly on volunteers, which isn’t a great business model. And wholly on the benefactors lending us a warehouse and giving us a truck, which is inevitably their worst truck that really should be on the scrap heap, so it just wasn’t working. It wasn’t sustainable and it wasn’t doing a great deal of good, or it wasn’t doing as much good as it could have done (Liverpool 5, training recycling).

Others had become unhappy with financial marginality. One entrepreneur had set up their venture in 2006 but commented that:

Really the only time I’ve been in a position to pay myself properly a reasonable wage that you can live on is this year, June, so it’s been a bit of a struggle, like the business has been doing stuff, but it’s not really been making any sort of sustainable income (Birmingham10, youth training).

Several enterprises appreciated their need for investment in order to enter new markets on a reasonable scale. Furthermore, as described in greater detail in the next section, a common theme running throughout our transcripts is an appreciation by our respondents of their lack of business skills in fields such as marketing, personnel and financial management.

It is hard to avoid the conclusion that for all their resourcefulness and improvisation, the marginal financial standing of SEs limits their capability to deliver social outputs and value. Their bricolage appears similar to the comprehensive or ‘parallel’ bricolage described by Baker and Nelson (2005) that runs throughout all dimensions of a firm. Such bricolage is dysfunctional as small firms do not seek out broader markets. Of
course, some SEs manage to move on from local bricolage to what Zahra et al (2009) term a constructionist position that produces broader social reforms and ventures that can be scaled up and transferred across localities, although the causes of this shift are currently poorly understood. Nevertheless, in this context the notion of bricolage appears to underestimate the significance of the consequences of resource constraints. With this in mind we now want to briefly evaluate what an evolutionary perspective can add to our understanding of SE finance.

6. Evolution and uncertainty

An evolutionary perspective on SE yields some additional insights into the reasons for the lack of radical change in SE financing. Just as our transcripts were riddled with suggestions of bricolage, so they were also full of indications of learning from experience. In particular, the evolutionary approach highlights the way in which the origins and experience of SEs have shaped their capabilities. In terms of their origins, half of our SEs could be traced to the actions of a single individual who came up with the idea for the enterprise. Their decision was often triggered by an event such as redundancy, inspiration from a degree course, or recognition of a funding opportunity. In 12 of our cases, the SE had been established by a voluntary sector organization undertaking a spin-out. Furthermore there were several instances where a group of people had come together to create a community facility, and in a few more cases the origins of the enterprise lay with a local authority or a public sector body externalizing an activity or sponsoring the creation of a SE.

Together, these origins meant that most of the managers we interviewed had career experience in three main sectors. The first and largest was the charity and voluntary sector as many of had worked in third sector organisations related to the SE’s activity. Second, there were also a considerable group who had worked in public sector bodies and regeneration agencies. Third, another set of interviewees had career experience in education and training and in several cases this had been training directly related to SE. It was noticeable, however, that few of our interviewees had been employed in business directly before starting their social venture. Only a few individuals had long term private sector experience. In general, our entrepreneurs were far more experienced in voluntary and public sectors and appeared to be much more comfortable with the funding mechanisms found in these sectors. This is partly the reason for the widespread lack of business and marketing skills identified in many SEs (Lyon and Ramsden, 2006). Several of our interviewees explained that they were uninterested in financial practices and procedures as these were not their real “passion”.

Our social entrepreneurs proved far more experienced in charity and public sector work than in business development. As one SE manager explained, writing business plans was not something that they felt to be in their comfort zone:

_The other challenge that we face and the difficulty is that we, a lot of us, and I include myself in the organisation, have grown up in the voluntary sector and I think there is a tendency to lack, we have some really good people on the board, but in terms of the staff team the people doing the day job, we’ve tended to move from sort of grants to contracts and we’re quite comfortable with contracts now_ (Southampton 1, environmental training).

Many smaller SEs appear to survive without an explicit business plan. As one revealed:
We’ve been running social enterprises now for seven years, obviously any funder worth its salt would ask us what our business plan is and certainly up until about six months ago, we couldn’t produce a coherent business plan, because it just predicted financial disaster (Liverpool 2, education business services).

Of course there were exceptions where individuals have had private sector and other business-related experience. For instance, a SE manager with a loan from a social investment bank commented:

I think the other thing to say is my background was a regeneration manager for a local authority and I used to run all the business support services for (anonymised), so I do know how to put business cases together and I know how to deal with public bodies. I think a lot of people would have struggled with, at the time, the financial side of it because I hadn’t got good enough financial management in the organisation. I’ve addressed that subsequently. So I was being asked for data which I hadn’t got to hand, I had to generate it (Birmingham 5, health education).

But most enterprises seemed far more comfortable with writing contracts bids and applications for particular projects rather than business strategies. Indeed, since tendering absorbs a large amount of time and effort, many SEs had invested significantly in developing a reputation with commissioners and funders. One training organisation, for example, had secured yearly contracts since 1979 and developed a reputation on this basis:

Most of the core work that we’ve done has been – we’ve had to deliver the work against a contract and then bid for the contract each year, but after a while you’re a preferred supplier, you’re known for your delivery, you’re known for your performance and it’s easy (Birmingham 2, training cultural facilities).

Typically, SEs felt that they should continue to exploit such investment. However, according to one support organisation, whereas traditionally SEs tended to be run by charitable boards with little personal stake in the business and therefore little incentive to take risks, a new generation or wave of social entrepreneurs is emerging with stronger personal commitment to their enterprises and a willingness to take on loans. While the scale of our sample meant that we could not validate this perception, it certainly merits further investigation.

The uncertainty surrounding public sector contracts was a major reason why many SEs were reluctant to launch ambitious growth plans. Many were acutely aware of their own vulnerability and had seen many small ventures fail. Some noted that their cash flow had been weakened by payment by outputs. Several had suffered from the sudden cancellation or reduction of funding:

They’re not contracts in the way that you would consider for trading purposes. So they’re contracts but there’s clauses in them, as we were told by a city council senior officer, there’s clauses in it that say, if the government cuts their funding they can cut ours, notwithstanding assigned, legally binding, you would think, contracts. They pointed us to this clause and said this in small print (Birmingham 7, education disability employment).
The local authorities just tie themselves up in knots and are not commercially fair. I mean they’ll give you a price but if you make a surplus they’ll want the feedback, you know, want to reduce it all (Southampton 3, IT recycling training).

One manager (unsurprisingly from Birmingham) claimed that his local authority had moved from a ‘Honda’ model of subcontracting, based on nurturing a long term relationship with contractors focussed on quality, towards an old style ‘Rover’ model based on short-term cost saving. There was widespread recognition that current public sector reforms are causing increasing uncertainty for SEs. Apart from public expenditure cuts, increased contracting out of local authority services would put smaller SEs at greater risk. Significant cost advantages in terms of economies of scale would accrue to larger organizations and this might involve some of the SEs forming consortia:

Our funding at the moment, like probably a lot of third sector organisations, is very, very knife-edge. Having said that, there’s a lot of talk about social enterprise and the value of it, and therefore in theory, there will be funding one hopes, so there’s the what’s it called – the Charity Bank or whatever it’s called, and there are other potential streams for enterprise funding, but nobody really knows what they are yet or what their value is or how much competition there will be (Birmingham 8, community development).

Thus the uncertainty stemming from environmental context is highly significant, just as an evolutionary perspective suggests. The interrelationships between context and strategy are strong. As SQW (2007) argued, an apparent aversion to risk, in the form of finance, is understandable given short-term grant and contract reliance, relatively low level income generation activities, and reluctance on the part of funders to allow for full cost recovery. A manager of an SE intermediary, summarised the situation:

I think the problem is that demand for loan finance among social enterprises is not yet a concept that has caught on. It’s not a culture that exists, is not a marketplace that exists, in actual fact, let’s be honest, the government encouraged the growth of the new social lending sector before there was any proof of demand whatsoever, so at the moment you could say they were over provisioned.

7. Conclusions

Despite recent initiatives in social investment, our research found only limited evidence of change in the nature of SE finance, which continues to be characterised by a low level of demand for loan finance. Both the social bricolage approach and an evolutionary entrepreneurial approach offer important insights into the causes of this low level of demand. The two approaches overlap to some degree in emphasising the importance of a form of practical and adaptive financial management in SEs that is dominated by practical reason rather than by formal financial planning (Duymedjian and Rüling, 2010). The majority of SEs practice a cautious, incremental and opportunistic growth strategy in order to both combine social and economic aims and to avoid bankruptcy. This is an adaptive response to the uncertainty they face, plus an indicator of the importance of inherited capabilities in third sector finance and resourcing. Both views suggest, therefore, that it is unrealistic to expect the majority of SEs to secure conventional loan
finance. Both perspectives also suggest that there is much to be gained by studying the history of SEs in order to better understand how they are shaped by their origins, experiences and routines. Where they differ is that the evolutionary view helps to explain some of the origins of this cautious approach to finance and also takes greater account of the significant impact of resource constraints, whereas bricolage perspective suggests that these constraints can be reconstructed and to some degree avoided. Overall, the notion of bricolage offers an overly optimistic view of SEs suggesting a degree of skill and accomplishment that belies the desperate and pressured environment in which many operate.

This cautious style of financial behaviour in most SEs appears deeply rooted and it has several implications for debates about the future of SE finance. First, it is unrealistic to expect most SEs in deprived urban areas to move radically and substantially away from charitable and public sector funding as these funding sources are too closely tied to their skills, capabilities and priorities. Hence, an obvious way of improving their sustainability is to address some of the volatility surrounding public sector contracts. If the contracts available could be made less insecure and uncertain this would probably be the most effective way of improving the financial standing of many urban SEs and also enable them to seek development funding. But second, it is clear that if we do want some SEs to get greater access to development capital then this will necessitate an increased supply of soft and subsidised loans. As we noted above, this study focused on SEs in central urban areas where public funding is most important, but if the lessons from our sample are at all generalisable then, given their low margins and lack of investment readiness, most SEs will not be able to attract, and afford the costs of, commercial and near-market loans. Third, we have seen that while SEs are highly resourceful and skilled at forms of bricolage, this is often problematic and that it may well restrict the growth and expansion. Simply raising the supply of appropriate finance will not resolve this issue (see also Shanmugalingam et al, 2011). Rather, given that their mode of financial survival is so deeply engrained, then encouraging SEs to develop other types of strategy and resourcing will require considerable help from intermediaries. Much time and effort is required to help SEs become investment ready (Joy et al, 2011). In many cases it is unlikely that SEs will change their financial behaviour and practices unless they are supported and guided by intermediaries who can provide knowledge about appropriate funding. Only a small minority of our SEs had had any help from what be called social business angels and very few had benefited from the combination of finance and knowledge that such agents can offer. Thus, in conclusion, the financing of SEs is unlikely to develop and expand unless the supply and scope of such intermediaries can be dramatically increased. Future policy on SE finance would benefit from a closer assessment of the specific characteristics of these enterprises. Social lending will certainly be of benefit to some but the majority of SEs will continue to need other forms of investment and financial support.

References

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