

# Shetland Social Enterprise Review

Final Report

January 2011

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**Voluntary Action Shetland, Shetland Islands Council and  
Highlands & Islands Enterprise**

**Shetland Social Enterprise Review**

**January 2011**

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# Executive Summary

The Shetland Social Enterprise Review was commissioned by a Steering Group of Voluntary Action Shetland, Shetland Islands Council and Highlands and Islands Enterprise. The Steering Group commissioned the Review to inform the work of the Social Economy and Community Regeneration Partnership (SECRP).

The initial purpose of the Review was to create a better understanding of social enterprises in Shetland and to identify policy responses that could better support the development of social enterprises in the future.

Social enterprises are desirable because the anticipated benefits are two-fold:

- The first is that social enterprises are expected to be able to deliver socially beneficial services and/or products in a more flexible and effective way than the public sector can.
- The second is that, in addition to a social focus, social enterprises operate on a commercial basis. A commercial focus should enable an organisation to use generated income to support sustainable operation; and to use profits to support the development of the organisation and its services. This commercial focus, if successful, is expected to create strong and sustainable organisations and as a result limit an organisation's dependency on ongoing financial support from the public sector.

However, creating a workable definition of a social enterprise which can be used to say which organisations are and which organisations are not social enterprises has proven to be problematic at an international and national level. There appears to be two very different types of organisation which both achieve the benefits outlined above:

- The first type of organisation is a private sector business which has social objectives. The expectation is that the business generates income and profit but does so to enable reinvestment for the good of others rather than maximising financial return to the owners and investors. This model is perhaps best understood by saying 'enterprise' is the structure and essence of the organisation.
- The second type of organisation is focused on voluntary and community based organisations which pursue trading activities to generate income and support their viability. This model is perhaps best understood by saying the organisation is 'enterprising' rather than 'an enterprise'.

A review of current literature appears to favour the first type of organisation as being closer to the underlying concept of a 'social enterprise'. However, while social enterprise remains the favoured term, the long-running debate about what is a social enterprise is unlikely to be resolved to the satisfaction of all who promote the development of both types of organisation and view their development as a long-term ambition. The difficulty in clearly stating what a social enterprise is appears to have led to a rise in the terms 'social business' and 'community enterprise', a development in terminology which appears to reflect the two different types of organisation outlined above.

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The Review has concluded that the lack of a clear definition and the nature of the social economy in Shetland means that it is problematic to label some organisations in Shetland as social enterprises and others as not being social enterprises. This was clearly demonstrated during the Review. At the beginning of the Review a definition of a social enterprise was created which was considered to be appropriate to the type of organisations which exist in the social economy in Shetland. The definition was agreed with the Partners.

It was initially expected that the definition would identify an appropriate target market of social enterprises for the Partners. However, the use of the definition in the Review highlighted challenges that would exist for the Partners if they attempted to use it to categorise organisations. The challenges are expected to have arisen regardless of the specifics of the definition used as the problem is not in the detail of the definition but the artificial division of very similar organisations in Shetland. Therefore it is considered that using the term social enterprise as a policy tool for SECRP is likely to create unnecessary complexity in the short-term and is expected to make the Partners long-term objectives more challenging to achieve. This conclusion suggests that a targeted policy to support a labelled group of social enterprises would be difficult, if not impossible, to implement.

However, the Partners ambitions to support the development of Third Sector organisations and in particular reduce their fragility and dependency on ongoing public sector finance remain valid and desirable. The Review has therefore recommended that the objectives of SECRP are likely to be better achieved in the current Shetland environment by moving the focus away from creating a policy targeting a labelled group of 'social enterprises'.

The findings of the Review suggest that a more effective and more manageable approach for SECRP is likely to be through a focus on stimulating greater levels of enterprising behaviour within third sector organisations. This is the approach adopted by the Scottish Government in its recent action plan 'Enterprising Third Sector' where the term social enterprise is avoided and the focus is very clearly on the successful development of more enterprising voluntary and community organisations. This approach is considered to be more appropriate to the nature of the social economy in Shetland and could enable the Partners to achieve their objectives.

The move away from social enterprises as the subject of the Review substantially altered the focus mid-way through the project. However, all of the research has been used to inform the recommended new approach.

## **Methodology**

The Review used the following research tools:

- an online survey of 139 third sector organisations identified by the Partners as those most likely to be involved in enterprising activity. The survey secured 76 fully completed responses which represents a response rate of 55%;
- a follow-up telephone survey with 44 of the organisations that completed an online survey;
- desk research which reviewed literature linked to social enterprises and UK, Scottish and local policy linked to the development of the third sector;

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- consultations with individuals with a professional interest in the development of the third sector in Shetland; and
  - a workshop with the Steering Group.

Although the surveys were targeted at a specific group of organisations it is considered that as a result of the revised focus of the Review that the findings of the Review are likely to have some relevance to a much broader group of organisations in the third sector.

## **Organisational Characteristics**

The survey sample is not intended to represent the whole of the third sector in Shetland. The population of organisations targeted with the survey were specifically selected as they were considered to be those organisations most likely to be active in some form of enterprising activity. Therefore the sample is representative of this population.

Organisations in the third sector demonstrate significant diversity both in their structure and the nature of their activity. The different areas of activity of organisations in the sample are categorised as follows:

- Community based regeneration and development (14%);
- Arts and culture (8%);
- Sport and recreation (16%);
- Employment, education and training (7%)
- Services for communities (32%)
- Services for individuals or target groups (20%); and
- Other (4%).

A selection of the findings from the survey demonstrates the characteristics of the sample. The findings include:

- 37% of organisations are active throughout Shetland;
- the majority of organisations (63%) have charitable status;
- on average each organisation benefits from 1,144 hours of volunteer time per annum or the equivalent of a 0.7 full-time volunteer;
- the most common roles for volunteers were involvement in the management committee, delivery of activities and fundraising;
- the sample of organisations support 577 jobs or 321 FTE posts;
- two-thirds of the sample own assets, the significant majority of which are physical assets such as buildings or equipment;
- a third of organisations generated less than £15,000 of income in their most recent financial year and 10% generated income of more than £250,000; and

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- a significant minority (15%) have experienced a decline in income over the last three years but a higher proportion (38%) have experienced income growth.

## **Identifying Enterprise in the Third Sector**

The surveys defined enterprising activity as productive activity which generates income for the organisation. To ascertain whether an organisation undertook this form of enterprising activity, respondents were asked whether, excluding membership fees, their organisation generates income by selling products or services, or by charging for the use of facilities. In order to ensure clarity the question stated that this included income generated through a service level agreement (SLA). The online survey found that 75% of the sample organisations are involved in enterprising activity. The most common methods for generating income are hire of the organisation's assets and the sale of refreshments and merchandise.

However, there appears to be some confusion evident from recipients about the difference between contractually awarded income (i.e. trading income) and grant finance. The findings from the survey show that some organisations appear to view SLA income as awarded income rather than earned income. This suggests that the respondent does not view the SLA as an agreement between a supplier and a customer, i.e. a trading relationship, but rather they view it as grant income. In this situation it is difficult to suggest that an SLA is evidence of enterprise.

During the Review it became clear that there were quite distinct types of organisation within the sample of organisations and this appears to be closely linked to the approach towards enterprising activity. Using the information collected during the Review the study team identified four broad types of organisation and these are explained in the table below. The identification of four types of organisation is not intended to be used to label organisations, as there will always be exceptions. The framework has been created to provide an additional tool to the SECRP to help it to understand the target market better. Therefore when investment decisions are being made and actions identified the Partners can use it to agree the broad 'type' of organisation that is being targeted by an action, the change in behaviour that is expected and the benefits that will ideally be achieved from the investment.

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## Types of Third Sector Organisations and their Enterprising Characteristics

Model A	Model B
<p>An organisation which shares characteristics with the public sector. Income may be dependent on a single income source or single activity. At this time the organisation may display only limited enterprising characteristics. The organisation may have been historically or may remain dependent on grant and certainly public sector funding for ongoing operation. This may be supplemented by income from charitable organisations. Income from private sources or users is likely to be limited and the culture of the organisation is unlikely to consider their users as 'customers'. Survival and ambitions to develop or grow are likely to be dependent on funding opportunities. This organisation is likely to face increasing pressure to commercialise contractual arrangements with the public sector, for example through SLAs, and demonstrate efficiency and value for money.</p>	<p>An organisation which shares characteristics with the private sector. This model is closest to what many would define as a true social enterprise. The organisation has a positive attitude towards profit and seeks a financial return on investment to pursue social goals. Income is likely to be generated from a range of sources. The organisation has clear ambitions to develop and grow. An organisation operating under this model can be expected to be vulnerable to changing market conditions in the wider economy and, where public sector spending is part of their income, pressure to demonstrate value for money. Dependence on public sector funding is likely to vary but for many it will be limited to one-off projects or initiatives where funder and organisation share the same objective(s).</p>
Model C	Model D
<p>An organisation that is likely to be community led and volunteer based. Income through any form of enterprising activity is most likely to be pursued in order to cover costs or to fund a particular project, rather than for the generation of profit or surplus. The organisation is likely to have a mix of income sources and will generate a valuable proportion of income from users/customers. Ambitions are likely to be linked to maintaining or enhancing a quality of service rather than growth or significant development. Dependence on public sector funding likely to vary but for many it will be limited to one-off projects or initiatives where funder and organisation share the same objective(s).</p>	<p>Model D represents a temporary state for an organisation and may be a new organisation or an organisation in transition. The organisation can appear turbulent and/or fragile. Presence in this category is ideally temporary before progressing to greater focus and stability under another of the three models. The model of delivery is likely to vary dependent on the organisation's origins and ambitions. The organisation may be highly dependent on grant funding to survive this period. The organisation can be experiencing conflict between social goals and a need to pursue enterprising activity in order to generate income to either survive or develop. The organisation can face uncertainty about direction to take, lack of focus, resistance within culture of the organisation to enterprising activity and resource and skills gaps. Risk of crisis and/or failure can be high unless focus and stability can be achieved within a timeframe considered appropriate by stakeholders.</p>

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## The Value of the Third Sector

The surveys found that the third sector generates value across a number of areas in the Shetland community and economy. The areas where direct impact occurs include:

- **community engagement** and a sense of community pride through both volunteering and participating in the services and facilities offered by third sector organisations. These benefits would be nearly impossible to achieve through other routes;
- **improved well-being of individuals** through taking an active role in their community and as users or consumers of the services and activities provided by third sector organisations;

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- **skills development for volunteers** which can include transferable skills such as project and people management or more specific skills such as counselling, first aid or care;
  - **employment opportunities**, sometimes in peripheral areas where job opportunities are limited; and
  - **levering in finance** to the community from outside of Shetland.

Additional benefits will depend on the focus of the organisation but can also include new business creation, preservation of culture and heritage which can support industries such as tourism and carbon reduction.

All of the impacts listed above can have a positive knock-on benefit on the wider community and economy of Shetland through enhancing the islands as a place to live and by supporting economic activity in the wider economy.

## Outlook for the Third Sector

The development of more enterprising activity within the third sector is both a local and national ambition. The policy environment for the Third Sector has perhaps never been stronger:

- the UK Government's Big Society appears to support the strengthening of the Third Sector with more control over local problems devolved to local people;
- the Scottish Government's Enterprising Third Sector: Action Plan 2008-2011 recognises the contribution the third sector can make to economic growth; and
- locally the Single Outcome Agreement for Shetland recognises the value of the third sector in strengthening communities and the economy.

However, there is also the challenge of public sector budget cuts. The reality of budgetary cuts is that, despite political ambitions, there is likely to be fewer resources available to support the development of the third sector. In addition, there is likely to be new pressure on organisations to demonstrate value for money from any activity supported by public sector finance. Therefore stimulating significant change in the third sector is likely to be challenging, particularly as many organisations in the sector can already be considered to be fragile.

The respondents to the survey identified their main challenges as access to funding, attracting volunteers, and increasing pressures arising from bureaucracy and regulation. The Review also identified other challenges through desk research and the consultations which combine with the challenges stated above to create barriers to development. In summary barriers to more enterprising behaviour within an organisation can include:

- a shortage of human resources, either volunteer or employee time, to identify and pursue new opportunities;
- difficulties accessing finance to invest in new activities;
- commercial skills gaps which are valuable in the development of more enterprising behaviour;

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- a culture which is resistant to a commercial approach and averse to the concept of profit generation; and
  - a reluctance to take risk, possibly due to the voluntary nature of many organisations where there may be concerns about liability and/or because little reward is likely to accrue to individuals as a result of risk taking.

In addition to internal barriers to development there are also indicators of external barriers which could discourage more enterprising behaviour in the third sector in Shetland:

- public sector budget cuts and the impact upon financial support for the third sector;
- the survey findings highlighted concerns about the regulatory and bureaucratic pressures which voluntary and community organisations face. There are likely to be concerns that developing new streams of income will only increase this pressure;
- some funding systems require that if an organisation makes a financial profit or surplus that this must be returned to the funder. This is likely to be a disincentive to become more efficient or generate more income as there will be no immediate benefit to the organisation;
- the consumers or users of the services and/or products of the third sector expect these to be provided for free or at very low cost. This makes it difficult to generate sufficient income;
- the size of the market in Shetland may hinder organisations from achieving sufficient economies of scale to become commercially successful; and
- conditions associated with funding streams can make it difficult to alter the focus of the organisation, and there can be conflict between funding conditions and the ambitions of an organisation to develop.

Despite the challenges the survey findings suggest a high degree of confidence in future income growth amongst third sector organisations. However, many of the organisations that have development plans are dependent on public sector finance to achieve their ambitions. In addition, there is a wider context which suggests that the environment for organisations in the third sector may be about to become more challenging. There is little evidence that development challenges such as volunteer shortage and rising bureaucracy can be easily reversed. Add to this the problem of limited commercial skills, reducing public sector resources and increasing pressure to demonstrate value and the Partners objective of supporting a more enterprising third sector appears challenging.

## **Supporting an Enterprising Third Sector**

Although the ambition of a more enterprising third sector is challenging it remains desirable and important for the long-term future of many activities in Shetland. Indeed it could be easily argued that doing nothing is not an option. One objective of the Review was to support the development of a policy for the SECRP. Based on the findings of the Review the following vision, objective and priorities are proposed for SECRP.

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## Vision

The long-term vision for the third sector in Shetland is proposed as:

*'Third sector organisations are recognised for their unique and vital role in supporting Shetland's communities to be vibrant and thriving places to live and work. Their activity supports the provision of social and economic opportunities for all and stimulates community cohesion and regeneration throughout Shetland.'*

*'Shetland's third sector organisations are known for their enterprising and flexible approach. The successful combination of volunteer effort, sustainable income sources and a focus on achieving the best community value from activities supports the long-term sustainability of the sector.'*

The vision for the Partnership's role in the further development of an enterprising third sector is:

*'The Partnership will work efficiently and effectively to ensure optimal benefits can be achieved from the available resources. A focused and easy to navigate portfolio of support mechanisms will be available to organisations in the third sector which share the Partners' vision for the sector.'*

## Objectives for SECRP

The following objectives are proposed to both meet the ambitions of the Partners and best address the current challenges faced by the sector:

*To support organisations to pursue enterprising activities that will generate sustainable income sources for the organisation; and*

*To support organisations to consolidate and streamline activities to ensure best value is achieved from the effort and resources invested.*

Sustainable income is defined as non-grant income created by the effort and activities of those within the organisation. For example membership fees, income from the hire of equipment and facilities, income from the sale of products and income from charging for services (including Service Level Agreements).

## Priority Areas for Action

In pursuing the objectives outlined above the following priorities for action are proposed:

- 1. Support the progression of organisations that are undertaking a significant programme of change and are pro-actively pursuing external sources of sustainable income generation;*
- 2. Facilitate and support access to skills and knowledge, in particular business skills;*
- 3. Seek opportunities for collaborative working and economies of scale, including the potential merger of organisations, to support efficiency improvements and flexibility within the third sector; and*

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4. *Ensure effective communication between the enterprising third sector and wider stakeholders so that both audiences can better understand each other.*

The Review proposes actions under each of the Priorities but the Steering Group is keen to use the findings of the Review alongside their own experience to develop an action plan.

If it were not for public sector budget cuts the current context would suggest a very bright outlook for third sector organisations that are seeking development opportunities. However, there is a conflict between the policy desire for development and the resources likely to be available to support development in the third sector.

The challenge for policy makers, including SECRP, will be to identify where resources can best be invested to optimise value for money; and the challenge for social entrepreneurs will be finding the area of activity where sufficient income can be generated to cover costs and enable reinvestment to ensure a sustainable organisation.

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# 1 Introduction

- 1.1 The review of the social enterprise sector was commissioned by Voluntary Action Shetland on behalf of the Steering Group Partners which also include Shetland Islands Council and Highlands and Islands Enterprise. The review was structured in two phases. The first phase included an online survey and follow-up telephone survey with organisations operating in the third sector. The second phase built on the survey findings to develop a policy approach and an outline action plan which could be implemented by the client steering group through the Social Economy and Community Regeneration Partnership (SECRP).

## Purpose of Study

- 1.2 The Partners wished to identify how their future activities could best be targeted to support the growth and development of social enterprises in Shetland. The objectives of the study were initially stated and summarised as:
- analyse current characteristics of the social enterprise sector in Shetland;
  - identify what is the status of the social enterprise sector in Shetland and what is the potential for growth;
  - identify what is the current support that is accessed/sought, what is the measure of confidence of the sector and what are the barriers to growth; and
  - formulate policies and practices that can be implemented by LSEP (now SECRP) to develop social enterprises in Shetland.
- 1.3 Between August 2009 when the proposal was accepted and April 2010 when the project inception meeting was held there has been a gradual shift in the environment for organisations in the public sector and those that benefit from public sector funding. There is now a widely accepted expectation that significant public sector cuts are likely to have a negative impact on the funding available to the third sector and that as a result funding may be more challenging to obtain.
- 1.4 Therefore the research was undertaken on the understanding that the Review also had the following objective:
- with the prospect of reduced access to funding and resources, identify how can the development of social enterprises best be supported.

## Work Programme and Methodology

- 1.5 The definition of what constitutes a social enterprise is an issue which has been under global debate for decades. Issues including the inability to agree on what a social enterprise is and the challenge that this creates for policy makers are explored in this report. However, to enable the Review to address the stated objectives a definition for a social enterprise appropriate to Shetland's context was necessary and one was developed in conjunction with the Partners. The focus of the definition is firmly on organisations

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operating in the third sector and the full detail of the definition is presented in Chapter 3.

- 1.6 Following agreement on an appropriate definition for a social enterprise in Shetland a research programme began which consisted of:
- desk research to understand the current context for social enterprises and the wider third sector;
  - an online survey of organisations. The organisations targeted with the survey were selected by the Partners and were considered to represent the organisations that are or may be the most enterprising third sector organisations in Shetland. The list of organisations including email addresses was provided by the Partners. In total 139 online questionnaires were successfully circulated. In total 76 fully completed responses were received. A further 25 questionnaires were only partially completed and were therefore not included in the analysis. Survey respondents are listed in Appendix A;
  - a follow-up telephone survey of 44 organisations that responded to the telephone survey. Survey respondents are listed in Appendix B;
  - a workshop with the Partners on the Steering Group. The workshop reviewed the original focus of the study as a result of the findings from the other research activities.
  - consultations with Partners and stakeholders with an interest in the development of the sector. The consultees were:

Steering Group Members:

- Mhari Pottinger, Highlands and Islands Enterprise;
- Thomas Coutts, Shetland Islands Council;
- Bill Crook, Shetland Islands Council;
- Michael Duncan, Shetland Islands Council;
- Wendy Hand, Voluntary Action Shetland; and
- Catherine Hughson, Voluntary Action Shetland.

Additional Consultees

- Ann Black, Shetland Charitable Trust;
- Douglas Irvine, Shetland Islands Council;
- Bob Kerr, Shetland Islands Council; and
- Hazel Sutherland, Shetland Islands Council.

- 1.7 During discussion at the workshop it was agreed that the focus of the study should shift away from social enterprises and towards enterprising activity in the third sector. The reasons for the shift in focus are fully explored throughout the report. However, the consequence of this alteration to the study is that the Review responds to slightly altered objectives. However, it is not considered by Review team or by the Partners that this has

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substantively altered the Partners development objectives or the value of the Review.

## Report Structure

- 1.8 The remainder of the report presents the findings and conclusions from both phase one and phase two of the Review and is structured as follows:
- Chapter 2 discusses the political environment and local context which surrounds the development of the third sector at this time;
  - Chapter 3 discusses the challenge of defining what a social enterprise is and its fit within the wider third sector. The definition of a social enterprise initially developed for this Review is provided. The chapter also sets out an alternative approach proposed to, and accepted by, the steering group which retains a focus on enterprising activity but avoids the label 'social enterprise';
  - Chapter 4 describes the characteristics of the organisations surveyed for the Review including the extent and nature of enterprising activity evident;
  - Chapter 5 discusses the value of the organisations surveyed to the wider community, the development challenges currently faced and the future outlook for the sector; and
  - in response to the findings of the Review, Chapter 6 presents a policy approach and outline action plan which the steering group could take forward through SECRP.

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## 2 Redefining the Review

- 2.1 The third sector in Shetland consists of a high number of organisations. Current estimates suggest there may be in the region of 600 organisations operating throughout Shetland. If the estimate is reasonably accurate it suggests that there is approximately one organisation for every 35 residents, including children, in Shetland. The organisations are active across a wide spectrum of activities. However, the third sector as a whole was not the subject of the Review. The focus of the Review was initially on social enterprises operating within the third sector.
- 2.2 Creating social enterprises as the target market for both the Partners and the Review was one way of segmenting the larger third sector. Although the review was tasked with investigating social enterprises the findings of the review have raised questions about the usefulness of the term in the Shetland context and in the future policy approach of the Partners. The consultees and research respondents had a general view of what a social enterprise is but views vary.
- 2.3 The concern is that the use of an ill-defined and poorly understood term will not aid policy and future support mechanisms at all and in reality may cause problems. The findings of the Review suggest a more productive focus for policy development in the short-term in Shetland may be on the support and development of 'enterprising' as a characteristic within the third sector rather than 'social enterprises' as a specific target market.
- 2.4 This chapter explores the rationale behind the recommendation to shift the Partners policy approach away from a focus on social enterprises and towards enterprising activity. Chapter 2 presents:
- analysis of the term third sector;
  - a review of definitions which attempt to clarify what a social enterprise is;
  - the definition of a social enterprise considered appropriate for Shetland and agreed at the beginning of the Review with the steering group; and
  - the survey findings which indicate the challenge and potential problems of creating a social enterprise definition, a subsequent policy and actions; and
  - the rationale behind the shift of focus from social enterprises to enterprising.

### The Third Sector

- 2.5 The term 'third sector' has been used in this report to describe the range of organisations that exist outside of the Public and Private Sectors. Both 'Social Enterprise' and the 'third sector' can prove to be controversial titles and different inclusions and exclusions can apply depending on who is using the term.
- 2.6 With regards to the third sector, other terms which are often interchangeable with 'third sector' include:

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- the Not-for-Profit Sector, but this appears to exclude those organisations seeking to make a surplus to achieve their social goals;
  - the Voluntary Sector which has been a more traditional term but as more enterprising organisations appear there is perhaps less evidence of volunteer activity at the core of organisations' activities. An evolution of this term is the Voluntary and Community Sector;
  - in Europe a popular term is the Social Economy; and
  - a further alternative is the Civil Society, a term that the new UK Government appears to support as it has replaced the Office of the Third Sector with the Office of Civil Society although this terminology may be designed to broaden out responsibilities beyond those traditionally considered to fit with the third sector.

2.7 Regardless of the title selected, generally accepted characteristics of organisations operating in this area include:

- not profit distributing;
- constitutionally independent from the state; and
- benefitting from volunteering.

2.8 For consistency the term third sector has been used throughout this report to refer to organisations in Shetland that demonstrate the characteristics outlined above.

## Identifying a Social Enterprise

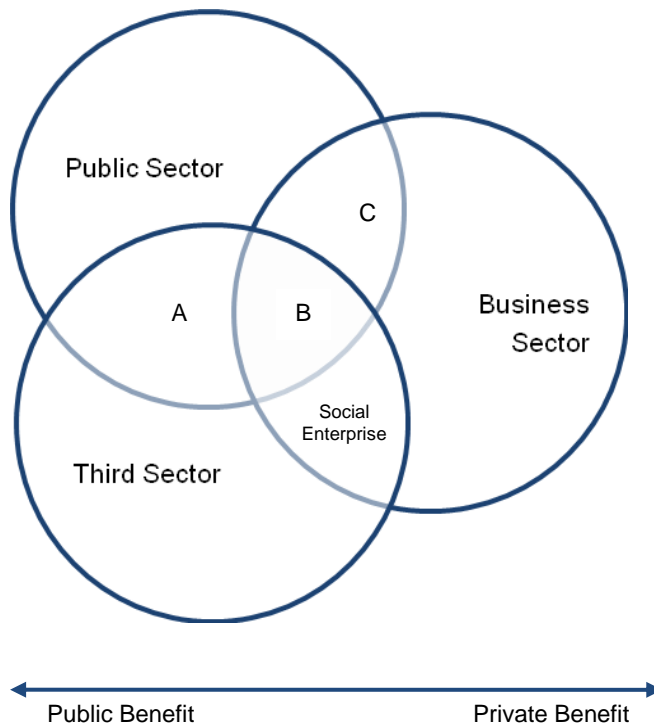
2.9 The third sector consists of a wide variety of organisations, not all of which are of interest to this Review. The initial challenge for the Review was to identify an accepted definition of what a social enterprise is. This is a hotly debated topic both nationally and internationally and there is little indication that an agreed and specific definition will be reached in the short-term.

2.10 In its most basic form definitions provided for the two words include:

- **Social** (*adjective*) 1. Living or preferring to live in a community rather than alone. 4. Relating to or having the purpose of promoting companionship, communal activities, etc.: *a social club*.
- **Enterprise** (noun) 1. A project or undertaking, especially one that requires boldness or effort.

2.11 A report by the Cabinet Office provided the following diagram to demonstrate the position of social enterprises in the wider economy. It clearly states their position at the crossover of the third sector and the Business Sector. However, this definition does not appear to be widely accepted and other definitions exist which could place Social Enterprises within those areas labelled A, B and C.

**Figure 2-1: Identifying the Position of Social Enterprises**



*Adapted from Private Action, Public Benefit, Cabinet Office, September 2002*

- 2.12 The Cabinet Office of the UK Government also provided the following definition of a Social Enterprise in its Social Enterprise Action Plan in 2006

*‘Social Enterprises are businesses with primarily social objectives. They principally reinvest their surpluses in the business or community for these purposes. Unlike commercial businesses, they are not driven by the need to produce profit for shareholders and owners.’*

- 2.13 However, there are fears that the UK Government’s definition is broadening and that private sector businesses will earn the ‘badge’ without representing the principles behind the concept of Social Enterprises.

- 2.14 The Social Enterprise Coalition states that Social Enterprises are:

*‘businesses trading for social and environmental purposes. Many commercial businesses would consider themselves to have social objectives, but social enterprises are distinctive because their social and/or environmental purpose is absolutely central to what they do - their profits are reinvested to sustain and further their mission for positive change.’*

- 2.15 The definitions and diagram above all appear to support the view that social enterprises are essentially private businesses but with primarily social objectives rather than third sector organisations with enterprising characteristics. However, these definitions, and others, are open to interpretation and often there is uncertainty about what can and what cannot be classed as a social enterprise.

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- 2.16 In an attempt to provide clarity on the issue an article by Senscot<sup>1</sup>, a Scottish based organisation, in August 2010 provides its own detailed definition of what a Social Enterprise is under five criteria. The definition, as set out below, appears to further broaden the scope of what a social enterprise might be and extends it beyond the private sector business focus into more areas of Figure 2-1 above.

### **Senscot's Five Criteria**

#### Criterion 1 – Social Enterprises have social and/or environmental objectives.

- As one of its defining characteristics, a social enterprise must be able to demonstrate its social mission. This will be evidenced in its constitutional documents but the production of other (externally verified) evidence is encouraged - to provide transparency of purpose and accountability to stakeholders. Tools and techniques to measure social and environmental impact are becoming more effective and user friendly.

#### Criterion 2 - Social Enterprises are trading businesses aspiring to financial independence.

- This second defining characteristic is demonstrated by an enterprise earning 50% or more of its income from trading. This will be evidenced by the accounts of the business over a reasonable period. A high level of income from the public sector is acceptable in the form of contracts - but not grants.
- Criterion 2 is intended to mark the boundary between social enterprise and much of the voluntary sector. (Many Voluntary orgs trade over 50% without calling themselves social enterprises)

#### Criterion 3 – Social Enterprises have an 'asset lock' on both trading surplus and residual assets.

- Whether or not it's a charity, a social enterprise re-invests all its distributable profit for the purpose of its social mission. Where the business has shareholding investment (very few in Scotland) no more than 35% of profit may be distributed in dividends. In addition, the constitutional documents of a social enterprise must contain a clause to ensure that, on dissolution of the business, all residual assets go to social/environmental purposes.
- Criterion 3 is intended to mark the boundary between social enterprise and the private sector.

#### Criterion 4 – A Social Enterprise cannot be the subsidiary of a public sector body.

- Whilst a social enterprise can be the trading subsidiary of a charity, it must be constitutionally independent from the governance of any public

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<sup>1</sup> [http://www.senscot.net/view\\_art.php?viewid=9851](http://www.senscot.net/view_art.php?viewid=9851)

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body. Additional evidence of this would be required from Public Sector externalisations.

- Criterion 4 is intended to mark the boundary between social enterprise and the public sector.

Criterion 5 – Social Enterprises are driven by values – both in their mission and business practices.

- Social enterprises operate in competitive - often fierce – markets but there is an expectation that their dealings will be ethical and that they will offer their people satisfactory wages, terms and conditions. Enterprises of a reasonable size are expected to have clear human relations and environmental policies. Transparency would be achieved through the voluntary adoption in the sector of a maximum ratio – between highest and lowest paid – of say 1:5 – investing a culture of equality.

- 2.17 Although this definition is not accepted at a policy level it does attempt to define the boundaries between social enterprises and the public, private, and voluntary sector. However, in attempting to provide clarity, it appears to offer a broader definition than the definition appearing elsewhere for social enterprises which is often more closely aligned to the private sector business model.
- 2.18 Perhaps due to the challenges in providing a definition, there is also a rise in the use of the terms Community Enterprise and Social Business although again these terms have conflicting definitions.
- 2.19 There is also a model being promoted for a 'Fourth Sector' which is defined as those organisations operating in the area marked 'B' in Figure 2-1 which, according to its proponents, includes social enterprises.

## **Defining Social Enterprises in Shetland**

- 2.20 In the absence of an accepted definition of a social enterprise, it was necessary in the early stages of the Review to develop a definition of a social enterprise which was considered to be appropriate for Shetland and would enable the Review to proceed. Using a range of sources a definition was created and agreed with the steering group. Quantitative measures relating to size of income and source of income were considered to be appropriate to the needs of the client.
- 2.21 The criteria selected were not particularly challenging but nevertheless were considered appropriate for Shetland and the extent of enterprising activity which currently exists within a proportion of organisations in the local third sector. As already stated the Review concludes that no further use should be made of the definition.
- 2.22 The definition is presented below in two tiers. The first tier is designed to test whether an organisation fits with the generally accepted definition of a third sector organisation and displays the 'core characteristics' required. The second tier tests to what degree an organisation displays the 'defining characteristics' of a social enterprise.

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### Tier One: Core Characteristics

- 2.23 If the organisation did not meet all three core characteristics below it could not have been defined as a social enterprise:
1. The organisation relies on volunteers for its management and/or delivery of its activities (and is not directly or indirectly run by public authorities or private companies);
  2. The primary purpose of the organisation is to pursue a social, environmental or cultural goal; and
  3. The organisation recycles any profit to support their purpose or to reinvest in their target beneficiaries to further their social goal.
- 2.24 These core characteristics would place social enterprises firmly within the third sector as previously defined.

### Tier Two: Defining Characteristics

- 2.25 The defining characteristics set out below were used to categorise the extent of enterprising indicators present in each of the organisations that responded to the survey. Categorisation was proposed as follows:
- If the organisation demonstrated two or more of the following three defining characteristics it was classed as a social enterprise in Shetland for the purpose of the Review;
  - If it demonstrated one of the following three characteristics it was classed as demonstrating enterprising characteristics; and
  - If it demonstrated none of the following characteristics it was classed as a general third sector organisation.
- 2.26 The defining characteristics agreed with the steering group partners as appropriate to Shetland were:
1. The local organisation is continuously active in the production and/or sale of products or makes a charge for services and/or the use of an asset (excluding membership fees);
- OR
- The organisation provides a community event on a regular basis and is directly involved in the production and/or sale of products or makes a charge for services and/or the use of an asset;
2. More than 10% of total income locally is generated from selling products or charging for services/use of an asset (excludes membership fees but includes SLAs);
- AND
- Total annual local income exceeds £15,000 (including membership fees, fundraising, grants etc);
3. The organisation employs individuals to produce and/or sell products or provide services.

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## Meeting the Agreed Definition of a Social Enterprise

2.27 Chapter 4 provides detail on the findings of the surveys of third sector organisations. However, because a major recommendation arising from the research is that the Steering Group Partners shift away from their initial focus on social enterprises it is appropriate at an early stage to explore the reasons why this conclusion has been reached.

### Survey Findings

2.28 In total, 42 of the 76 respondents to the online survey meet two or more of the criteria specified in the definition of a social enterprise which was agreed for this study. Those organisations that only meet one criterion are categorised as displaying enterprising characteristics without actually being classed as social enterprises. Those that meet none of the three criteria are classed as general third sector organisations as agreed in the definition.

2.29 The analysis shows that, with the exception of organisations in the sport and recreation and 'other' categories, organisations defined as social enterprises are relatively well represented throughout all categories of third sector organisations. Although small in total number, all of those organisations involved in Employment, Education and Training are classified as social enterprises, according to the agreed definition, as are almost all of those involved in Arts and Culture. Of the activity categories that hold a higher proportion of the total sample Services for Individuals and Community Based Regeneration present a high incidence of social enterprises.

2.30 However, the population selected for the survey was specifically targeted by the steering group to be those organisations that were believed to be amongst the most enterprising in the third sector and therefore the defining criteria may not be considered particularly challenging for this group. Consequently it may be a disappointment to see almost a fifth of all respondents in the general third sector category (Table 3-1).

**Table 2-1: Respondents Fit with Definition of Social Enterprise Developed for the Review**

<b>Focus of Activity</b>	<b>Meets Agreed Definition of SE</b>	<b>Displays Enterprising Characteristics</b>	<b>General Third Sector</b>
Community Based Regeneration and Development	55%	45%	0%
Arts and Culture	83%	0%	17%
Sport and Recreation	25%	25%	50%
Employment, Education and Training	100%	0%	0%
Services for Communities	43%	48%	9%
Services for Individuals or Target Groups	69%	6%	25%
Other	33%	33%	33%
All Respondents	54%	28%	18%

*Source: Online Survey*

2.31 Of the 42 organisations categorised as social enterprises, 24 (or 57%) provide employment. Alternatively this can be stated as, of the 27 organisations in the sample that provide employment, 89% are social enterprises. With employment being one of the potential criteria to be met

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within the definition this demonstrates that sufficient income can be generated to classify an organisation as a social enterprise within the agreed definition without the need to employ anyone.

### **Weaknesses with the Definition**

- 2.32 On closer inspection of the categorisation of organisations that fit or do not fit with the agreed definition it becomes clear that justifying any policy approach, and in particular any particular support mechanism based on the agreed definition or a similar form of definition would most likely become extremely challenging for the Partners. For example the analysis shows that organisations which share very similar characteristics may fall either side of the definition. This was evident particularly in organisations such as Public Halls and Boating Clubs where, because many of the criteria are based on meeting a financial condition, one public hall would be classed as a social enterprise but another would not. The telephone interviews also highlighted that this did not necessarily signify a lack of enterprising activity but may be most closely related to the scale of the organisation or the size of community within which it operated. In conclusion, it became clear that using the definition, or even an amended definition, and attempting to label some organisations social enterprises and others not would lead to a wide array of problems for the Partners. In addition, choosing to identify organisations they wish to target in this way is unlikely to represent an efficient or effective pathway, and may even be counter-productive, to achieving the Partner's objectives.
- 2.33 The challenge in defining and understanding a social enterprise was further highlighted within the local Shetland context when those organisations that fit the agreed definition are compared against those organisations interviewed in the telephone survey who believe they are a social enterprise. Respondents were only asked if they thought their organisation was a social enterprise if they stated they recognised the term. In 12 cases both the respondent and the definition used for this review are in agreement that the organisation is a social enterprise. In addition, in six cases the respondent was familiar with the term social enterprise but both the respondent and the definition do not consider the organisation to be a social enterprise.
- 2.34 However, the numbers highlighted with an asterisk in Table 3-2 show the number of organisations (21) that can be considered to have a mismatch between the agreed definition of a social enterprise and respondents own view or knowledge of the organisation as a social enterprise. For example, nine organisations believed they were social enterprises but did not meet the criteria set out in the definition. This is despite the relatively relaxed criteria selected to be appropriate to Shetland.

**Table 2-2: A Comparison of Respondents' Opinion and the Definition for Social Enterprise agreed for the Review**

	Identified by Respondent as a Social Enterprise	Respondent stated organisation is not a Social Enterprise	Respondent was not familiar with term Social Enterprise
Identified by agreed definition as a Social Enterprise	12	5*	7*
Not a Social Enterprise (i.e. displays enterprising characteristics or is a general third sector organisation)	9*	6	5

\* Represents organisations where there is either a difference of opinion or lack of knowledge as to whether the organisation is a social enterprise.

Source: Online and Telephone Surveys

2.35 The Review's definition of what might constitute a social enterprise was not discussed with respondents. However, respondents who stated they recognised the term were asked for their own views of what a social enterprise is. Responses were broadly similar with respondents often breaking it down by the two words and stating that a social enterprise is an organisation with social goals that operates along business lines.

## A Focus on Enterprising Activity

2.36 As demonstrated throughout the earlier sections of this chapter, the classification of an organisation as a social enterprise is challenging. The Review cannot resolve the debate but the various issues raised throughout this chapter do present challenges for policy makers wishing to utilise the term social enterprise.

2.37 Overall, there appears to be two very different types of organisation that are promoted as being 'social enterprises' because they provide social benefits and demonstrate enterprising activity:

- The first type of organisation is a private sector business which has social objectives. The expectation is that the business generates income and profit but does so to enable reinvestment for the good of others rather than maximising financial return to the owners and investors.
- The second type of organisation is focused on voluntary and community based organisations which pursue trading activities to generate income and support their viability.

2.38 Whilst the two models may share some characteristics, in particular a focus on social objectives, the nature of the organisations is likely to be very different. Perhaps one way of considering the differences is to characterise the first by stating 'enterprise' is the structure and essence of the organisation, i.e. it is an enterprise or business, whereas the second has 'enterprise' as a feature of the organisation, i.e. the organisation is enterprising.

2.39 This challenge is perhaps reflected in the Scottish Government's recent decision to label their Action Plan 'An Enterprising Third Sector' which focuses on the development of the second form of organisation described above.

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2.40 The findings from the Review suggest that the policy approach of the Steering Group shifts away from the initial focus of the Review which was to create a labelled group of 'social enterprises' and towards an approach more closely aligned with the concept of 'An Enterprising Third Sector'. The benefits of this are expected to include:

- an approach more appropriate to the target group of SECRP and the nature of third sector activity currently undertaken in Shetland;
- less confusion and potential conflict, over which organisation is and which organisation is not a social enterprise;
- a removal of the risk that one year an organisation may fit either the agreed or an alternative definition of a social enterprise but the next year may not;
- flexibility to adapt to local circumstances regardless of whether an agreed definition for social enterprise should emerge at a national level; and
- a fit with the current Scottish Government approach to the development of the third sector.

2.41 In conclusion the recommended shift of approach away from 'social enterprises' towards 'enterprising organisations' has been incorporated as the preferred focus for the Review with the full agreement of the Steering Group.

## Summary

2.42 The original objective of the Review was to better understand social enterprises in Shetland. However, the research has found that the term social enterprise is poorly defined, and where clarity is proposed it very much veers towards a private sector business model which is not represented in great numbers in Shetland. Although a definition was agreed for social enterprises which was considered appropriate to Shetland the practical application of the definition indicated that if the Partners used it as a way of segmenting the third sector it would probably cause more problems than it would solve.

2.43 The consequence of abandoning the Review's focus on social enterprises and the agreed shift towards a focus on enterprising as a characteristic means that some of the original objectives for the Review cannot be achieved. However, the remainder of the report presents findings relevant to the new approach and, it is understood, to the needs of the Partners.

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## 3 Political and Local Context

- 3.1 The development of more enterprising activity within the third sector is both a local and national ambition. Statements such as ‘unlocking the potential’ are commonplace and the new UK Government appears to have placed the third sector at the centre of their policy ambitions through its ‘Big Society’ concept.
- 3.2 The environment for developing the third sector has perhaps, at an initial glance, never been more supportive. However, there is also the challenge of public sector budget cuts which are currently creating daily news headlines. The reality of budgetary cuts is that, despite political ambitions, there is likely to be fewer resources available to support the development of the third sector which tends to heavily rely on public sector support.
- 3.3 This chapter provides the rationale for public sector support, an overview of both national and local policy approaches to the development of the sector and the anticipated consequences of public sector budget cuts.

### Rationale for Public Sector Support

- 3.4 Third sector organisations can provide services and facilities in a community that organisations in the private or public sectors might find difficult to provide or are reluctant to provide. For example, opportunities for the third sector often exist because the public sector is unable to provide a similar service in a sufficiently flexible or efficient manner and/or is unable to offer it in a way that best meets the needs of a local community or target group. Opportunities also exist for the third sector in areas where the private sector may otherwise be expected to step in but does not because, for example, the particular activity cannot generate sufficient profit to justify investment.
- 3.5 Despite the existence of potential opportunities for the third sector the activities of individual organisations often require public sector support. This need for support does vary, for example, the need for financial support may be restricted to a start-up phase, required for ongoing operating costs or required for one-off project development costs. There may also be non-financial support needs such as advice and guidance.
- 3.6 Whatever the need for support, the rationale for providing public sector support to the development of the third sector, and in particular its ‘enterprising’ activity, includes:
  - the potential of the sector and social entrepreneurs to contribute to economic growth through the development of enterprising activity and the provision of employment, often in challenging conditions and where private sector activity may be limited;
  - the social benefits and value generated by the third sector are a ‘public good’ and cannot be easily measured or obtained as a financial return to an individual therefore public sector support is often required as the private sector and individuals will be reluctant to invest; and
  - a recognition that better public services may be provided more efficiently, effectively and flexibly outside the public sector.

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## National Policy

3.7 There is a clear drive within UK and Scottish policy to support more and better third sector activity. These policies include the UK Government's Big Society and the Scottish Government's Enterprising Third Sector. Both are described briefly below. A joint statement which sets out the principles for the relationship between local government and the third sector in Scotland is also summarised.

### Big Society

3.8 The UK Coalition Government launched the Big Society in July 2010. The ambition is to give more power and opportunity to everyone. They wish to build a 'bigger and stronger' society by empowering people to have more control to solve local problems. Given the cross-cutting nature of this, the responsibility for delivery is being shared amongst Westminster departments.

3.9 A number of policies have already been agreed. These include:

- the introduction of new powers to help communities save local facilities and services threatened with closure, and give communities the right to bid to take over local state-run services;
- training for a new generation of community organisers and support for the creation of neighbourhood groups across the UK;
- a range of measures to encourage volunteering and involvement in social action;
- a range of measures to encourage charitable giving and philanthropy;
- introduction of a National Citizen Service, initially to provide a programme for 16 year olds to give them a chance to develop the skills needed to be active and responsible citizens, mix with people from different backgrounds, and start getting involved in their communities;
- support for the creation and expansion of mutuals, co-operatives, charities and social enterprises, and support for these groups to have much greater involvement in the running of public services;
- the use of funds from dormant bank accounts to establish a Big Society Bank, which will provide new finance for neighbourhood groups, charities, social enterprises and other non-governmental bodies.

### Enterprising Third Sector: Action Plan 2008-2011

3.10 The Enterprising Third Sector Action Plan sets out the Scottish Government's intentions to provide the right environment for growing an enterprising third sector. It fits within the Government Economic Strategy (2007) which sets out Scotland's priority of sustainable economic growth and a more successful country. This economic strategy recognised the contribution the third sector can make to economic growth.

3.11 The Action Plan includes the following objectives:

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### Opening Markets to an Enterprising Third Sector

- The public sector market: working with purchasers to recognise the benefits of contracting with an enterprising third sector including their contribution to delivering national outcomes;
- The public sector market: working with the third sector to make organisations better able to compete for and win contracts;
- Developing social-to-social business;
- Encouraging collaboration with the private sector;

### Investing more Intelligently

- Direct investment in an enterprising third sector;
- Measuring social return;
- Collaboration between funders and development of new funds;
- Finance training for the third sector;

### Promoting Social Entrepreneurship

- Providing funding to support social entrepreneurs;
- Promoting social entrepreneurship in schools and colleges;

### Investing in Skills, Learning and Leadership across the Third Sector

- Funding for skills;
- Developing the learning infrastructure;
- Improving governance;

### Providing Support for Business Growth

- Creating an effective supply of business development support;
- Mentoring for an enterprising third sector;

### Raising the Profile of Enterprise in the Third Sector

- Supporting third sector infrastructure;
- Awards;
- International exchange and learning;

### Developing the Evidence Base

- Demonstrating the value of the third sector; and
- Increasing our knowledge of the third sector in Scotland.

3.12 The document also challenges the third sector to make the most of the opportunities that this presents: to identify markets or opportunities; to

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demonstrate their contribution; and to develop organisations that are contributing to sustainable economic growth.

- 3.13 It is interesting to note that the Scottish Government action plan refers to social entrepreneurs and an enterprising third sector but avoids using the term social enterprise.

### **Joint Statement**

- 3.14 In 2009, representatives from the Scottish Government, Solace, CoSLA and SCVO came together and developed a Joint Statement on the Relationship at a Local Level between Government and the third sector.

- 3.15 The statement was developed in response to the changed relationship between Scottish Government and Local Government as a result of the signing of the Concordat in November 2009, and the recognition that the relationship between Government and the third sector would also need to develop.

- 3.16 The statement includes the following key points:

- a successful relationship is built upon mutual respect and a joint understanding;
- the third sector is valued as an integral part of shaping and delivering better services, particularly for the flexibility they can provide;
- local authorities recognise and respect the need for third sector providers to make appropriate provision for operating surpluses and the generation of reasonable and realistic reserves;
- public resources are limited and public funding is provided on the basis of value for money and its contribution to agreed outcomes; and
- the development of strategic commissioning and procurement: collaborative approach for the assessment of need, design, procurement and monitoring of the effectiveness of services.

### **Local Policy and Support from the Partners**

- 3.17 Many of the initiatives suggested above are already either in place or under development in Shetland. Support for the third sector has traditionally been strong in Shetland. Volunteering is common place and local public sector funds have been available for capital projects, for example the construction of community halls and marinas, or smaller projects such as the construction of wind turbines or the renewal and replacement of equipment. There has also been public sector revenue funding available to help assist organisations to pursue their social goals, for example small grants to support annual running costs and more substantive support which enables organisations to employ individuals to deliver their objectives.
- 3.18 There are also a number of policy approaches which support the development of the third sector. These policies include Shetland's SOA, the Community Regeneration Policy and a Commissioning Strategy which sets out when the local authority might seek to purchase external service provision. These documents are summarised briefly below.

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- 3.19 The role of each of the Steering Group Partners in relation to the development of the third sector is also presented.

### **Shetland's Single Outcome Agreement**

- 3.20 Shetland's Key Purpose is to maintain the economically active population throughout Shetland. In achieving this, a number of strategic outcomes have been set. Two of these are relevant to this research:
- Cross-Cutting 2: Strengthening Communities, which recognises the following key areas of delivery:
    - Community Development and Capacity Building;
    - Volunteering; and
    - Social Economy.
  - Wealthier 5: Strengthening the Economy: Peripheral communities will be assisted to build capacity that strengthens community sustainability. This includes an indicator to measure the growth of social enterprises. The Action Plan states 'To strengthen our economic base and enhance the sustainability of peripheral communities we will:
    - support communities to develop regeneration plans for their area;
    - assist social enterprises to improve their skills and undertake projects that enhance their profitability and reduce dependence on grant funding; and
    - use public sector resources to stimulate stronger private, social and voluntary sectors.

### **Shetland Community Regeneration Policy**

- 3.21 The Shetland Community Regeneration Policy was approved in January 2009 and put in place a co-ordinated support structure for assisting communities in their development. The aim of the Policy is to stimulate economic growth and to improve social cohesion in communities that are facing decline. Communities are engaged in a regeneration process, broken down into 3 Phases:
- Phase One: Establishing a set of outcomes and actions to achieve (e.g. Through a Development Plan);
  - Phase Two: Development Work Implementation; and
  - Phase Three: Exit. Ensuring the outcomes and actions have been achieved.
- 3.22 The Policy has eligibility criteria against which communities can be assessed for inclusion in the process.

### **Commissioning Strategy**

- 3.23 The Commissioning Strategy sets out information in relation to the Council's procurement policy and commissioning procedures where services are commissioned from the voluntary sector and other organisations. The

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document was approved by Council in February 2009 and sets out criteria for when a decision will be made to outsource community health and care services:

- Better: outsourcing would achieve a better outcome for service users;
- Cheaper: outsourcing would achieve cash releasing efficiency savings for no loss of service functionality or quality; and
- Something the statutory agencies cannot do: for example, independent advocacy services.

3.24 Commissioned services must demonstrate:

- value for money;
- resilience; and
- customer satisfaction.

## **Support Available from the Steering Group Partners**

3.25 Those agencies represented on the steering group for the Review are the key organisations in Shetland with a remit and responsibility for developing the third sector. Together, through the SECRP, they provide a one-stop-shop approach to assisting organisations, bringing in the appropriate support at the right time for their positive development.

3.26 Specifically:

- Highlands and Islands Enterprise provides intensive support to third sector organisations wishing to increase their turnover through more enterprising activities. An advisor is able to assist in the development of a growth plan designed to maximise opportunities and minimise barriers to growth.
- Through Highlands and Islands Social Enterprise Zone, a social enterprise support agency, organisations or aspiring organisations are provided with an opportunity to discuss development.
- Shetland Islands Council: Community Work Service. The network of five Community Workers provides support to communities and community groups to be viable and sustainable. The focus is on community involvement and the capacity building of individuals and communities and making sure that they have access to the correct funding and information.
- Shetland Islands Council: Economic Development Unit's remit includes providing support to community enterprises demonstrating evidence of economic activities. This support will often be provided on a one-to-one basis and will, if appropriate, support an organisation from idea to implementation, including funding support. The Unit also delivers the Business Gateway service which can provide business development support to private and third sector organisations.
- Shetland Islands Council: Grants Unit provides financial support as well as assistance with a range of services including but not limited to advice on child protection, governance, project planning and the completion of funding applications. The Grants Unit administers SIC and SCT grant

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schemes as well as monitoring a range of funded services and SLAs. The Unit assists hundreds of groups annually.

- Voluntary Action Shetland supports voluntary services in Shetland and their development and encourages people in Shetland to volunteer. VAS is the recognised interface between the statutory sector and the voluntary sector and represents the interests of the voluntary sector at a strategic level. Other areas of activity include assisting in the development of voluntary organisations; encouraging volunteering and participation of local people in community organisations; provision of practical and advisory services to member organisations; and supporting collaboration between voluntary and public sector organisations.

3.27 In addition to the support provided by the steering group Partners there is a wide range of support agencies and mechanisms available at both a local, Scottish and UK level. It is not practical for the Review to attempt to map all such services and sources of assistance.

## **Public Sector Budget Cuts**

3.28 As previously stated the policy environment for the development of the third sector has perhaps never been stronger. However, this factor may not be sufficient to ensure ambitions are achieved. The context for development within the third sector will increasingly be influenced by the public sector budget cuts expected in both local and national public sector organisations.

3.29 For some in the third sector this may present an opportunity however for others it will represent a threat that must be addressed. The impact of these government and local authority cuts are likely to be exacerbated by other key sources of potential funding, such as the lottery, being focused in the short-term on the delivery of major sporting events.

3.30 Information from a public sector communication statement in Shetland suggests the extent of cuts anticipated for Shetland Islands Council will be in the region of 18% in the two years 2010-2012. The potential loss of almost one-fifth of the Council's budget will undoubtedly trigger substantive change internally within the Council and in how the Council spends or allocates its finances.

3.31 Some organisations in the third sector have limited dependence, if any, on public sector finances and for these organisations the impact of public sector budget cuts may be limited to what consequences there are for the wider economy of the islands. However for organisations that are dependent on access to public sector finance the challenge will be how to adapt to the changing conditions and if necessary alter their operational model to match the new environment. This may require downsizing and/or the development of new initiatives. Those that are unable or unwilling to change may be those at greatest risk.

## **Summary**

3.32 If it were not for public sector budget cuts the current context would suggest a very bright outlook for third sector organisations that are seeking development opportunities. However, there is a conflict between the policy desire for development and the resources likely to be available to support development in the third sector.

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3.33 The challenge for policy makers, including SECRP, will be to identify where resources can best be invested to optimise value for money; and the challenge for social entrepreneurs will be finding the area of activity where sufficient income can be generated to cover costs and enable reinvestment to ensure a sustainable organisation.

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## 4 Characteristics of Organisations Surveyed

- 4.1 Chapter 4 presents the characteristics of the organisations surveyed in both the online and telephone surveys. The population of organisations selected for the research was identified by the steering group. The survey population was not intended to be representative of the whole third sector. The organisations targeted with the survey were those considered most likely to undertake enterprising activities. Therefore where grossing up of the findings occurs in the analysis it refers to the population of enterprising third sector organisations identified for the survey, not the whole of the third sector.
- 4.2 The online survey was sent to 139 third sector organisations. If the survey was not completed within two weeks a reminder email was sent in order to provide a further boost to responses. In total 76 completed responses were received which represents a response rate of 55%.
- 4.3 At the end of the online questionnaire respondents were asked if they would be willing to take part in a follow-up survey and where they agreed or said 'don't know' they were contacted for the telephone survey and 44 telephone interviews were conducted.
- 4.4 Using the information collected during both these surveys, the remainder of the chapter presents information on the characteristics of the different respondents, including:
- the nature of activity undertaken by each organisation;
  - the human resources used by the organisations, both voluntary and employed;
  - legal structure of the organisation;
  - asset ownership;
  - income levels, recent changes in income levels and the sources of income, including dependence on grant funding; and
  - the extent of enterprising activity evident in the sample.
- 4.5 The chapter concludes with a framework which identifies four different types of third sector organisation. The four models have been created as a result of the information collected during all of the research activities. Each model explores the different characteristics of each type and how these characteristics influence their approach to enterprising behaviour.

### Nature of Activity

- 4.6 Respondents to the online survey were asked to specify the main focus of their organisation. A list of 14 options were provided with space to specify another focus if appropriate. These options have been grouped into seven segments, including 'Other'.

- 4.7 The largest group of respondents (32%) has a focus on providing Services for Communities. This category includes community facilities and a high proportion of respondents represented community halls. The second largest group (20%) were organisations providing Services for Individuals or Target Groups. This segment included services for children and families, young people, the elderly and people with disabilities. The third and fourth most represented segments in the sample were Sport and Recreation (16%) and Community Based Regeneration and Development (14%) (Table 4-1).
- 4.8 The remaining segments were represented by less than 10 respondents each and included Arts and Culture, Employment, Education and Training and Other. The analysis contained in the remainder of this chapter often uses the seven segments to analyse whether differences exist between the segments. However, the percentages associated with the last three segments throughout the remainder of the chapter should be treated with caution as total numbers are low and large differences in percentages can be the result of the responses of just one or two organisations.

**Table 4-1: Focus of Activity**

	Number	%
Community Based Regeneration and Development	11	14
Arts and Culture	6	8
Sport and Recreation	12	16
Employment, Education and Training	5	7
Services for Communities	24	32
Services for Individuals or Target Groups	15	20
Other	3	4
Total	76	100

*Percentages may not add up to 100 due to rounding  
Source: Online Survey*

## Location

- 4.9 Over a third of respondents stated their organisation was active throughout Shetland (37%). However, the majority of respondents were focused on the delivery of services within their local community (Table 4-2).

**Table 4-2: Location of Activity**

	%
Throughout Shetland	37%
North Isles (Fetlar, Unst and Yell)	17%
Whalsay and Skerries	4%
North Mainland	9%
West Mainland, Papa Stour and Foula	11%
Central Shetland	7%
Lerwick and Bressay	7%
South Mainland and Fair Isle	9%

*Percentages may not add up to 100 due to rounding  
Source: Online Survey.*

- 4.10 The majority of respondents (84%) represented Shetland based organisations however a significant minority (16%) represented an organisation that operates outside of Shetland. These tended to be the

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larger charity based organisations which had a local office in Shetland, for example the Red Cross.

## Structure

- 4.11 The legal structure of an organisation in the third sector can be one of a wide selection of options. Those with charitable status can either be a Trust, Unincorporated Organisation or a Company Limited by Guarantee. A charity can own a Community Interest Company but a Community Interest Company cannot be a charity. Therefore the online questionnaire listed all possible forms as individual categories and asked respondents to tick as many as applied to them.
- 4.12 The most common form of structure identified was a Registered Charity with 37% of respondents stating that they were a charity and nothing else, which cannot be true. On investigation it appears that the vast majority (if not all) of these are likely to be either Unincorporated Organisations or a Company Limited by Guarantee. However, the issue of being a Charity was clearly the only structure that was of prominence in the mind of the respondent.
- 4.13 Excluding the charitable issue the most popular forms of organisation are Unincorporated Organisation and Company Limited by Guarantee. Only one respondent represented a Community Interest Company, a new form of organisation specifically geared towards social enterprises (Table 4-3).

**Table 4-3: Legal Structure of Respondents**

	%
Unincorporated Community, Social or Recreational Organisation (UCSRO)	24
UCSRO with Charitable Status	5
Registered Charity	37
Company Limited by Guarantee	7
Company Limited by Guarantee with Charitable Status	13
Limited Company	1
Trust	4
Trust with Charitable Status	8
Community Interest Company	1

*Percentages may not add up to 100 due to rounding*

*Source: Online Survey.*

## Human Resources

- 4.14 The involvement of volunteers was a characteristic required of survey respondents. If a respondent stated that the organisation did not benefit from the involvement of volunteers they were directed away from the survey and thanked for their interest. However, a proportion of respondents also provide employment opportunities. This section explores the scale of both voluntary and employed human resources available to the organisations.

### Volunteer Effort

- 4.15 Every respondent stated their organisation was dependent on volunteers for some aspect of management or delivery. Representation on the management committee or Board of an organisation was the most common

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role for volunteers (84%), followed by direct involvement in the delivery of the organisation's activities (74%).

- 4.16 More than half of all respondents also stated that volunteers are involved in the supervision of activities, fundraising, general administration and grant applications (Table 4-4). The findings show the very high dependence on volunteers in a wide variety of roles throughout the sample.

**Table 4-4: Roles of Volunteers**

	%
Management Committee/Board	84
Management or Supervision of Activities	50
Delivery of Activities	74
Fundraising	62
General Administration/Finance	57
Grant Applications	58

*Source: Online Survey*

- 4.17 Sixty nine respondents stated the approximate number of volunteer hours which supported their organisation either every week or every month. From these figures it is calculated that these organisations benefited from 78,920 volunteer hours per annum. Although responses were varied, the average per organisation was 1,144 hours per annum. If we assume that 35 hours for 48 weeks of the year is a full-time volunteer the findings suggest that on average each organisation benefits from 0.7 of a full-time equivalent (FTE) volunteer. It is considered that respondents may be likely to underestimate the true extent of the in-kind voluntary contribution and therefore the true extent of volunteer input may be higher than stated.
- 4.18 Using the information provided to gross up to the population of organisations that were sent the survey the findings suggest that the 139 organisations considered to be 'enterprising' benefit from approximately 97 FTE volunteers, which in reality is likely to represent hundreds of individual volunteers. This calculation assumes that the sample is representative of the survey population.

## **Employees**

- 4.19 In addition to benefiting from the input of volunteers, 34% of organisations in the sample also have employees. Those sectors where the total number of respondents are small: Arts and Culture and Employment, Education and Training are the most likely to be employers. Of the 15 respondents providing Services for Individuals 44% have employees (Table 4-5).

**Table 4-5: Proportion of Respondents that are Employers by Type of Organisation**

Focus of Activity	Sample Size	% that Employ
Community Based Regeneration and Development	11	36%
Arts and Culture	6	67%
Sport and Recreation	12	8%
Employment, Education and training	5	80%
Services for Communities	24	17%
Services for Individuals or Target Groups (one-to-one support)	15	44%
Other	3	67%
All Respondents	76	34%

Source: Online Survey

- 4.20 The total number of posts provided by all respondents (76 organisations) is 577 which is equivalent to approximately 321 FTE posts (Table 4-6). If two of the largest respondents (SRT and SADA) are excluded from the calculation this shows that the remaining organisations provide a total of 131 FTE posts.

**Table 4-6: Numbers Employed**

	Total Number	FTE
Year Round Posts: Number of Part-time (less than 10 hours per week)	144	36.0
Year Round Posts: Number of Part-time posts (between 10 and 35 hours per week)	274	137.0
Year Round Posts: Number of Full-time	144	144.0
Seasonal: Number of Part-time (less than 10 hours per week)	4	0.5
Seasonal: Number of Part-time posts (between 10 and 35 hours per week)	9	2.3
Seasonal: Number of Full-time	2	1.0
Total	577	320.8

Source: Online Survey

- 4.21 If it is assumed that the sample is representative of the population of 139 organisations sent the survey it is estimated that, excluding the large Trusts, the organisations identified by the client support approximately 246 FTE posts. However, there is a concern that in this specific calculation the sample will not be representative of the population as it is reasonable to assume that those organisations with employees were more likely to have the resource to complete the survey and therefore grossing up this statistic to the survey population may be considered unreliable.

## Asset Ownership

- 4.22 The online survey asked respondents whether their organisation owns any assets for example buildings, machinery and trademarks. Two-thirds of respondents (67%) own assets. Three-quarters of these organisations owned buildings or permanent structures (for example marinas) with the remainder highlighting the ownership of equipment. Only one organisation identified any intellectual assets which was a trademark.

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## Income

- 4.23 Respondents were asked a number of questions about their organisation's income including annual income, any recent change in annual income and the different sources from which income is generated, including their dependency on grant funding.

### Annual Income

- 4.24 One-third of organisations generated less than £15,000 of income during their most recent financial year. A further 28% generated between £15,000 and £50,000 of income. A quarter (24%) generated between £50,000 and £250,000 of income and 10% generated more than £250,000 in income. A small number of these organisations (3 organisations or 4%) generated income of over £1 million (Table 4-7).

**Table 4-7: Most Recent Annual Income**

	%
£1-£4,999	12
£5,000-£14,999	21
£15,000-£24,999	8
£25,000-£49,999	20
£50,000-£99,999	12
£100,000-£249,999	12
£250,000-£499,999	3
£500,000-£999,999	3
£1million plus	4

*Percentages may not add up to 100 due to rounding*

*Source: Online Survey*

### Recent Income Growth

- 4.25 All respondents were asked whether over the last three years the income of their organisation has grown, remained stable or declined. For almost half of all respondents income has been stable (47%). Income has grown for 38% of respondents and declined for 15% of respondents.
- 4.26 Stability or growth has been more likely in organisations focused on community based regeneration, culture and leisure. Declining income has been more evident in services for individuals and employment, education and training organisations (Table 4-8).

**Table 4-8: Change in Income Levels over the last 3 Years**

Focus of Activity	Sample Size	Income has Grown	Income has been Stable	Income has Declined
Community Based Regeneration and Development	11	50%	50%	0%
Arts and Culture	6	50%	50%	0%
Sport and Recreation	12	27%	64%	9%
Employment, Education and Training	5	40%	20%	40%
Services for Communities	24	41%	45%	14%
Services for Individuals or Target Groups	15	38%	38%	25%
Other	3	0%	67%	33%
All Respondents	76	38%	47%	15%

*Percentages may not add up to 100 due to rounding*

*Source: Online Survey*

### **Sources of Income**

4.27 Table 4-9 presents the sources of income of an organisation. The Table shows the importance of different sources of income to the total income of the organisations in the sample. For example the table shows that 32% of respondents generate zero income from sales or charges and seven percent of respondents generate 100% of their income from sales and charges (Table 4-9).

4.28 Key points arising from this analysis include:

- income generated by selling products or services, or by charging for the use of facilities is an important source of income for most organisations although one-third do not generate any income at all from this source;
- a small proportion are heavily dependent on SLA income (however see paragraph 4.30 for potential discrepancies in the way this data and grant income data has been completed by the respondent);
- membership income is generally a small contributor to overall funding and over two-thirds do not raise anything at all through this route; and
- very few organisations receive all of their income from one type of income source.

### **Dependence on Grant Funding**

4.29 Thirty eight percent of respondents stated that they received no revenue grant funding and 87% of respondents had not received a capital grant in their previous financial year. However, a third (32%) of organisations receive more than 50% of their income in grant funding (excluding SLAs).

4.30 There appears to be some confusion amongst respondents about the division between holding a SLA and receiving grant funding. This may reflect that fact that some organisations that previously received grants now

receive similar resources via a SLA, which is essentially a purchasing agreement. The evidence of a blurred understanding between SLAs and grants is provided through responses given to different questions in the online questionnaire<sup>2</sup>:

- five respondents said that they do not trade but in the question on income sources said that they do get income from a SLA;
- four organisations said that they do trade and have a SLA but later stated they generate zero income from a SLA and apportioned most of their income as grant income; and
- two organisations stated they trade then specifically stated they do not have a SLA but in the income question stated they earn income from a SLA.

4.31 The analysis is unable to resolve the discrepancies highlighted. However, this demonstrates a challenge in defining what enterprising activity is. From a definitional and potentially a policy perspective, SLA income and grant income are very different. SLA income is earned income and therefore a result of ‘trading’. Grant income is not earned, it is awarded. However, it is clear that organisations themselves do not necessarily recognise this division. This may be linked to historical arrangements and/or an organisation not recognising itself as generating income but instead considers itself to be a recipient of funding.

**Table 4-9: Percentage of Respondents and the Degree to which they are Dependent on Different Sources of Income**

Sources of Income	Degree of Income that is Dependent on Different Sources of Income				Total
	Zero income	Less than half of income	More than half of income	All income	
Sales/ Charges	32%	38%	24%	7%	100%
SLAs	75%	16%	8%	1%	100%
Revenue Grant	38%	31%	27%	5%	100%
Donations/ Fundraising/ Sponsorship	43%	45%	8%	4%	100%
Membership Fees	76%	23%	1%	-	100%
Capital Grant	87%	4%	10%	-	100%
Other	89%	10%	1%	-	100%

*Percentages may not add up to 100 due to rounding  
Source: Online Survey*

## Enterprising Activity

4.32 By moving the focus of the Review from social enterprises to enterprising activity it is important to understand the nature of enterprising activity amongst the sample.

<sup>2</sup> The full term ‘service level agreement’ was used throughout the questionnaire.

- 4.33 For the purpose of the Review, enterprising activity was defined as productive activity which generates income for the organisation. To ascertain whether an organisation undertook this form of enterprising activity, respondents were asked whether, excluding membership fees, their organisation generates income by selling products or services, or by charging for the use of facilities. In order to ensure clarity the question stated that this included income generated through service level agreements (SLAs). For simplicity this definition of enterprising activity is referred to as 'trading' in the remainder of this section.
- 4.34 The survey found that three-quarters of respondents (75%) generate income from trading. The most likely segment to generate income was Services for Communities, which includes community halls. The most common method of generating income for this segment was charging for the use of an asset. The segment least likely to be trading is Services for Individuals (50%). This perhaps reflects the similarities between these services and services provided by the public sector where charging for services is rare (Table 4-10).

**Table 4-10: Percentage of Respondents that Generate Income from Trading by Type of Organisation**

Focus of Activity	Sample Size	%
Community Based Regeneration and Development	11	82%
Arts and Culture	6	83%
Sport and Recreation	12	58%
Employment, Education and Training	5	60%
Services for Communities	24	96%
Services for Individuals or Target Groups	15	50%
Other	3	100%
All Respondents	76	75%

*Source: Online Survey*

- 4.35 The survey found evidence of income being generated from a range of activities however the most common methods for generating income are:
- hire/rental of an organisation's assets; and
  - sale of refreshments and merchandise.
- 4.36 Another less common source of income was selling the expertise present within the organisation to others, including the provision of training courses.
- 4.37 The income generated by organisations providing Services for Individuals or Target Groups is often generated from very specific services tailored to meet the needs of the beneficiaries and the purchasing organisation. These organisations are also the most likely to have a SLA in place which will often provide the majority of the income referred to.
- 4.38 Those organisations with employees are more likely to be trading (88%) than those organisations that do not employ anyone (68%).
- 4.39 Respondents were asked to state who pays for their products or services. Of the organisations that generate income from trading the majority sell or charge local residents (74%). Two-fifths also earn income from public sector

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organisations and 28% source income from other voluntary or charitable organisations (Table 4-11).

**Table 4-11: Type of Customers who Pay for the Services of Respondents**

	<b>Total %</b>
Local Residents	74
Visitors to Our Community	53
Public Sector Organisations	42
Private Companies	19
Other Voluntary or Charitable Organisations	28

*Source: Online Survey*

### **Motivation to Trade**

- 4.40 The telephone survey asked those organisations who stated that they were trading about their motivation to generate income in this way. Of the 31 telephone survey respondents who were in this category:
- almost all, 27 respondents, said they traded so that they could cover their costs;
  - nine respondents said they needed to generate income to enable reinvestment; and
  - six respondents stated they traded to meet a need identified in the community.
- 4.41 The high proportion of respondents that only aim to cover costs indicates that the pursuit of profit for reinvestment or development is not common place amongst the more enterprising organisations in Shetland's third sector.

### **Ambitions to Trade**

- 4.42 Of the 25% of respondents to the online survey that do not currently trade, 68% have a plan to generate new income in this way over the next three years. If these all succeed it would mean that potentially 92% of those organisations in the sample would be generating income from trading. However, the population was selected as being those most likely to be enterprising so it is reassuring to see evidence of either activity or ambition. The small number of organisations that have little ambition to trade stated that they were dependent on donations or did not believe that users in Shetland would pay for what they provide.

### **Different Approaches to Enterprise**

- 4.43 Enterprising is a broad term and discussion with organisations during the research found different forms of and approaches to enterprising activity. This has led to the identification of four models of enterprising third sector organisations in Shetland. The four different models are described in Table 4-12. This framework is based on the strategic and operational characteristics of an organisation rather than specific quantitative measures.

4.44 The purpose of the framework is to help segment and better understand the varying nature of organisations in the third sector and their motivation to undertake enterprising activity. It is recognised that there will always be organisations which are exceptions but the four models presented are believed to encompass the majority of organisations encountered during the research. Through understanding the different needs of and the challenges facing each type of organisation it should be possible to develop better targeted interventions.

**Table 4-12: Types of Third Sector Organisations and their Enterprising Characteristics**

<b>Model A</b>	<b>Model B</b>
<p>An organisation which shares characteristics with the public sector. Income may be dependent on a single income source or single activity. At this time the organisation may display only limited enterprising characteristics. The organisation may have been historically or may remain dependent on grant and certainly public sector funding for ongoing operation. This may be supplemented by income from charitable organisations. Income from private sources or users is likely to be limited and the culture of the organisation is unlikely to consider their users as 'customers'. Survival and ambitions to develop or grow are likely to be dependent on funding opportunities. This organisation is likely to face increasing pressure to commercialise contractual arrangements with the public sector, for example through SLAs, and demonstrate efficiency and value for money.</p>	<p>An organisation which shares characteristics with the private sector. This model is closest to what many would define as a true social enterprise. The organisation has a positive attitude towards profit and seeks a financial return on investment to pursue social goals. Income is likely to be generated from a range of sources. The organisation has clear ambitions to develop and grow. An organisation operating under this model can be expected to be vulnerable to changing market conditions in the wider economy and, where public sector spending is part of their income, pressure to demonstrate value for money. Dependence on public sector funding is likely to vary but for many it will be limited to one-off projects or initiatives where funder and organisation share the same objective(s).</p>
<b>Model C</b>	<b>Model D</b>
<p>An organisation that is likely to be community led and volunteer based. Income through any form of enterprising activity is most likely to be pursued in order to cover costs or to fund a particular project, rather than for the generation of profit or surplus. The organisation is likely to have a mix of income sources and will generate a valuable proportion of income from users/customers. Ambitions are likely to be linked to maintaining or enhancing a quality of service rather than growth or significant development. Dependence on public sector funding likely to vary but for many it will be limited to one-off projects or initiatives where funder and organisation share the same objective(s).</p>	<p>Model D represents a temporary state for an organisation and may be a new organisation or an organisation in transition. The organisation can appear turbulent and/or fragile. Presence in this category is ideally temporary before progressing to greater focus and stability under another of the three models. The model of delivery is likely to vary dependent on the organisation's origins and ambitions. The organisation may be highly dependent on grant funding to survive this period. The organisation can be experiencing conflict between social goals and a need to pursue enterprising activity in order to generate income to either survive or develop. The organisation can face uncertainty about direction to take, lack of focus, resistance within culture of the organisation to enterprising activity and resource and skills gaps. Risk of crisis and/or failure can be high unless focus and stability can be achieved within a timeframe considered appropriate by stakeholders.</p>

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- 4.45 An organisation's fit within any of the categories identified may be temporary. For example a change in committee or funding availability may stimulate the organisation to change its ambitions and model of delivery. For example, an organisation may be attempting to change from a Model A organisation to a Model B organisation may find itself temporarily operating under the characteristics of a Model D organisation. Operating under the transitional Model D is likely to be the period of greatest risk for the organisation and from here, for the example, the outcome could be either failure, successful progression to an organisation displaying Model B characteristics or a return to the general characteristics of Model A.
- 4.46 A SWOT analysis of each model was developed during the Steering Group workshop and is presented in Appendix C.

## Summary

- 4.47 The findings on the characteristics of the organisations surveyed are summarised as:
- there is significant diversity within the type of organisations and nature of activity present in the third sector;
  - the majority of organisations (63%) have charitable status;
  - on average each organisation benefits from the equivalent of a 0.7 full-time volunteer;
  - the sample of organisations that responded to the survey support 577 jobs or 321 FTE posts;
  - two-thirds of organisations own assets, the significant majority of which are physical assets such as buildings or equipment;
  - a significant minority (15%) have experienced a decline in income over the last three years but a higher proportion (38%) have experienced income growth;
  - there appears to be some confusion evident from recipients about the difference between contractually awarded income (i.e. trading income) through SLAs and grant finance;
  - 75% of the sample are involved in enterprising activity.
- 4.48 The research has led to the identification of four different types of organisation in the third sector, all of which can display enterprising characteristics but do so in very different ways. The information can be used to develop tailored solutions and actions which best meet the objectives of the Partners.
- 4.49 The following chapter presents further information from the research including the value generated by the activities of the respondent organisations and the challenges which the organisations face in delivering that value.

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## 5 Value, Challenges and Outlook for the Sector

- 5.1 Chapter 5 presents an analysis of the findings from the surveys, the workshop and the consultations in order to provide an overview of the current value of the sector to Shetland and what the future may hold for third sector organisations in terms of both challenges and opportunities in the short to medium-term.
- 5.2 The chapter is structured as follows:
- the first section provides an overview of the value generated for Shetland by the organisations represented in the sample. This value represents the many and varied strengths of the third sector in Shetland;
  - the second section investigates the main challenges faced by third sector organisations in delivering the value generated. Information from both the surveys and the consultations is used to develop an overview;
  - the third section presents findings from the surveys on the ambitions of respondent organisations to develop their organisations. This section also proposes opportunities for the third sector highlighted in the consultations; and
  - the fourth section discusses the external threats, some of which, such as public sector budget cuts have already been discussed to some degree but in this chapter the views of the survey respondents are also considered.
- 5.3 The chapter concludes by drawing the information together and presenting it in a summary SWOT analysis for the sector.

### Value

- 5.4 The activity of third sector organisations generates social, environmental and economic value in Shetland. Although the third sector is highly diverse the social purpose of the third sector will by its nature ensure social and in some cases environmental benefits are achieved. The evidence of these impacts can be seen each week throughout the pages of the local newspaper 'Shetland Times'. Positive benefits and impacts can be identified in the sports reports, the services and activities on offer and the reports on services and activities undertaken in the previous week.
- 5.5 In addition, third sector organisations with enterprising characteristics are also contributing economic benefits, for example the generation of employment or the attraction of visitors, and spending, to peripheral communities.
- 5.6 The surveys found that the third sector generates value across a number of areas in the Shetland community and economy. The areas where direct impact occurs include:

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- **community engagement** and a sense of community pride through both volunteering and participating in the services and facilities offered by third sector organisations;
  - **improved well-being of individuals** through taking an active role in their community, participation in activities such as sport or via the support provided by third sector organisations;
  - **skills development** for volunteers;
  - **employment opportunities**, sometimes in peripheral areas where job opportunities are limited; and
  - **levering in finance** to the community from outside of Shetland.
- 5.7 Dependent on the activities of the organisation the third sector can also have a direct impact on:
- new business creation;
  - preservation of culture and heritage which can support industries such as tourism and music; and
  - carbon reduction.
- 5.8 All of the impacts listed above can have a positive knock-on benefit on the wider community and economy of Shetland through enhancing the islands as a place to live and by supporting economic activity in the wider economy.
- 5.9 Examples provided by respondents of the different benefits listed above are quoted under each form of benefit below.

### **Community Engagement**

- 5.10 Building stronger communities is at the heart of the UK Government's approach to policy. Third sector organisations have a crucial role to play in creating and supporting community engagement and can be a catalyst for other activity. Without third sector involvement there would be little, if any, 'community' activity. Examples of the benefits provided by respondent organisations include:
- *We provide opportunities for participation in a range of activities for all residents of all age groups. This enhances community spirit and provides opportunities to meet neighbours or like-minded individuals;*
  - *The whole ambience on these fundraising days has drawn the community together; and*
  - *All ages of people in the community benefit from our activities as it's a warm homely environment for the elderly, youth clubs, toddlers and general public to come to and because its local, it means they don't have to travel far for their activities.*

### **Improved Well-being of Individuals**

- 5.11 There are two groups of individuals who experience improved well-being from the activity of respondent organisations. The first is the target beneficiaries who might be a whole community or a specific target group;

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and the second is the volunteers who become involved in the management and delivery of the activity.

#### Benefits to Volunteers

5.12 A significant amount of passion and dedication is required from those involved in managing community assets and running services. This suggests that for the effort invested volunteers get a reward such as satisfaction and/or enjoyment from their involvement. Examples provided in the surveys of the benefits to volunteers include:

- *[As volunteers] it gives us a sense of involvement and achievement;*
- *The fact that the many members of the committee have been volunteering for over 20 years proves that they must enjoy the benefits from involvement;*
- *The satisfaction of knowing that what we're doing voluntarily is improving the village and benefitting residents and visitors;*
- *It is satisfying to raise money that helps other people;*

#### Beneficiary Benefits

5.13 In addition to the benefits to volunteers, the activity of third sector organisations also benefits those individuals who participate in the activities of the organisation. For example residents of a community can benefit from the activities of their local community hall.

5.14 In addition, a proportion of third sector organisations set out with a very clear purpose to support individuals who may be experiencing personal challenges. Delivering tailored services to assist vulnerable individuals and families can result in benefits such as:

- *Improvement in the mental health and wellbeing of individuals who need support; and*
- *Their issues will be addressed, their voices/opinions will be heard, and their lives improved.*

#### **Skills Development**

5.15 In addition to improved well-being, volunteers are often provided with opportunities to develop skills in a number of areas. These skills can be developed through training but more often than not are likely to come through experience. Some skills may be generic and transferable skills such as administration, communication and project management skills. Others may be specific to a particular service such as counselling or first aid/care skills. Individuals also have the opportunity to transfer skills from volunteering to their employment or personal life. Comments on the skills benefits provided by the respondents included:

- *We provide experience that can be used on a CV;*
- *Those involved develop knowledge, skills and experience that would help them to access a job in care work or similar. They also access training that assists their personal development;*

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- *They develop the ability to work within a group;*
  - *Experience gained has included the forming and running of a trading company, and the marketing and selling of goods; and*
  - *[Volunteers] Gain experience in project management.*

## **Employment and Income**

- 5.16 The third sector also provides opportunities for employment. The 76 organisations that responded to the survey support 577 jobs in Shetland, these can be full-time or part-time jobs and many are available in the more peripheral communities of Shetland. Community regeneration organisations have a particular role to play in generating employment in fragile areas where economic diversification is highly challenging.
- 5.17 In addition to employment, the third sector, through its independent and often voluntary status, has the ability to attract in funding from outside of Shetland. Sources are highly varied and can include funds from national organisations, including Government, funds from private trusts, grants from private businesses and lottery funding, to name just a few. The amount of income attracted to Shetland was not gathered during this study and this would be a useful indicator to measure in the future should a similar exercise be repeated.

## **Challenges**

- 5.18 The value generated by the third sector is not easily achieved. In general the third sector is dependent on both generating sufficient income to cover costs and the in-kind input of volunteer enthusiasm and effort. Both inputs can be difficult to attract. For example organisations without employees will be dependent on attracting enough volunteer effort to source or generate sufficient income for the organisation to continue. The difficulties in securing both volunteer and financial inputs can make organisations within the sector vulnerable which can lead to a constant feeling of fire-fighting just to continue operation. The online survey asked each respondent about the challenges they face.
- 5.19 The online survey asked respondents to comment on the degree to which they believed a list of 10 potential challenges affect their organisation. The list was informed by desk research and client consultation. The findings from the question were later followed up in the telephone survey and respondents were asked to describe the nature of their challenges.
- 5.20 Respondents were asked to rank each issue according to the degree to which they expect it to affect their organisation. The response options were:
- major challenge;
  - moderate challenge;
  - expect some problems;
  - not an issue for us; and
  - don't know.

5.21 The following table provides an analysis of when an issue was identified as either a major or moderate challenge by respondents. The challenge raised most commonly was the rising cost of operation closely followed by the challenges of finding enough volunteers and access to core funding (Table 4-14).

**Table 5-1: Major and Moderate Challenges**

	<b>Major Challenge (%)</b>	<b>Moderate Challenge (%)</b>	<b>Total (%)</b>
Rising Costs of Operation	20	34	54
Finding Enough Volunteers	21	26	47
Access to Core Funding	26	20	46
Bureaucracy and Regulation	26	18	44
Finding Suitably Skilled Volunteers	13	26	39
Recruitment and Retention of Staff	8	16	24
Attitude of Others Towards the Work of our Organisation	5	17	22
Training for Staff and Volunteers	7	17	23
Skills of the Management Committee / Board	7	12	19
Lack of Demand for our Products / Services	0	7	7

*Source: Online Survey*

5.22 The online questionnaire then asked respondents what they believe is the main issue or single biggest challenge for their organisation over the next three years. Despite the high incidence of respondents concerned about rising costs the most frequent issues that were raised as being of greatest concern were:

- funding and the generation of sufficient income (41% of respondents);
- attracting sufficient volunteer resources (22%); and
- bureaucracy (11%).

5.23 Other issues raised, albeit less frequently, as the main challenge for the organisation included achieving the objectives of the organisation, community engagement and general economic conditions.

5.24 The focus on challenges related to funding, volunteering and bureaucracy were also the issues that generated the greatest discussion during the telephone interviews. The analysis which follows highlights some of the comments made.

### **Access to Funding**

5.25 The issues with funding tended to revolve around two main themes:

- anticipated problems in finding the funds for new initiatives or developments; and
- concerns about ongoing access to revenue funding.

5.26 Comments included:

- 
- *Increasingly funding comes attached with conditions which if applied affect our ability to achieve our own goals;*
  - *We receive money from the local community council but their funding has been cut so we may no longer receive funding;*
  - *We've had to use our reserves to cover our core costs this year;*
  - *We put in an annual application to the Charitable Trust but there are rumours about reduced funding; and*
  - *We're looking for funding for the planned extension.*

## **Volunteers**

- 5.27 Perhaps not surprisingly given the number of third sector organisations active in Shetland there are frequent reports of volunteer fatigue with many individuals contributing to the efforts of multiple organisations. Furthermore as bureaucracy and liability concerns increase there are also frequently reported problems in finding new volunteers prepared to take on the responsibility.
- 5.28 Overall the survey found a mixed response to the challenge of finding volunteers. A small number of organisations stated that they had no problem finding volunteers, and in fact were sometimes overwhelmed with the level of interest. These organisations tended to be able to offer a portfolio of volunteer opportunities so that volunteers could choose specific issue or location based activities to get involved in. Those organisations reporting the greatest difficulty appeared to be those where the volunteer effort focused on a committee and there was a high degree of bureaucracy or personal liability involved in the role. Examples of the comments made by those that were experiencing volunteering challenges included:
- *No-one wants to volunteer;*
  - *People run away at the word 'Committee'. Would become impossible to keep going if we lost many more of our volunteers;*
  - *It's getting more and more difficult all the time to get volunteers;*
  - *Pressure and volunteers do not mix well;*
  - *Hope it doesn't come to the Council having to take it over if we can't find volunteers;*
  - *There is a wealth of talent within any community – we just need to find it; and*
  - *We can manage, but it always falls on same people.*

## **Bureaucracy and Regulation**

- 5.29 The findings from the research show that there is increasing bureaucratic and regulatory pressure on voluntary and community based organisations. In many organisations this burden is carried by volunteers. The types of bureaucracy raised as problematic included:

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- Onerous grant applications and monitoring requirements, particularly for large scale development projects. Organisations that receive funding from more than one organisation have to conform with different monitoring regimes and therefore different reporting requirements which creates apparently unnecessary and time consuming burdens on the organisation and its volunteers; and
  - Increasing regulations covering all aspects of structure and activity. Common issues related to OSCR, Health and Safety, Licensing, Risk Assessment and Employment Law.

#### 5.30 Comments included

- *It's gradually become worse over the years. If we'd known what it was going to turn into when we started you would never have taken it on;*
- *AGMs are empty, people don't want the pressure. People worry and are scared about doing things wrong; and*
- *We've learned to live with it.*

### **Enterprising Skills**

5.31 Although not raised as a significant issue by the respondents to the survey, the consultations highlighted that there were concerns that many organisations in the third sector lacked the management and business skills necessary to successfully pursue an increase in enterprising activity.

5.32 This is unlikely to be a problem for organisations that are not pursuing growth or are not vulnerable to public sector budget cuts. However, for those organisations where it will be necessary or desirable to increase their enterprising activity, or for those organisations already heavily engaged in enterprising activity it is an issue that will influence success. This weakness is not unique to Shetland and is a widely recognised challenge within the third sector. This is often attributed to a conflict between the enthusiasm and drive which exists to achieve a social purpose and the concept of profit and commercial success. However, if commercial success is achieved, this can generate the income required to achieve the social purpose.

## **Confidence and Development Ambitions**

5.33 Respondents to the online survey were asked about their expectations for growth over the next three years. Further investigation of development ambitions was undertaken in the telephone survey and the findings are presented below.

### **Expectations of Growth**

5.34 Respondents were asked about their expectations for a change in income over the next three years. Almost one-third (30%) believe that the income of their organisation will grow, over half (53%) stated that they expected income levels to remain similar and 16% believe income will decline. This pattern is very similar to what the overall sample had experienced over the previous three years where 38% had experienced a growth in income, 47% said income had remained stable and 15% stated income had declined

5.35 However, within the segments there is some evidence that change is expected, community based regeneration organisations seem particularly confident that income will grow and organisations providing services for communities were much more likely to expect income to be stable with little expectation of growth (Table 4-12).

**Table 5-2 Expectation of Change to Income Levels over the next 3 Years**

Focus of Activity	Sample Size	Income will Grow	Income will be Stable	Income will Decline
Community Based Regeneration and Development	11	73%	27%	0%
Arts and Culture	6	50%	33%	17%
Sport and Recreation	12	17%	75%	8%
Employment, Education and Training	5	60%	0%	40%
Services for Communities	24	9%	74%	17%
Services for Individuals or Target Groups	15	25%	56%	19%
Other	3	33%	33%	33%
All Respondents	76	30%	53%	16%

*Percentages may not add up to 100 due to rounding*

*Source: Online Survey*

## Development Plans

5.36 The follow-up telephone interviews sought information on respondents' development ambitions. Over half of those interviewed (24 organisations or 55%) stated that there were ambitions to develop their organisation over the next three to five years. Of these organisations just under half have produced a development or business plan setting out their development intentions.

5.37 The ambitions of respondent organisations have been categorised into three broad forms of development. The findings show that:

- 10 organisations intend to invest in existing or new assets so that they can expand the services or activities they provide;
- seven organisations intend to focus on the development of new services; and
- seven organisations are focused upon the improvement or renewal of existing assets.

5.38 These findings are positive as 17 of the 24 organisations plan to invest in order to expand what they already do. The remaining seven have plans that are more focused on improving what they already provide through enhancement projects.

5.39 The vast majority of development plans are motivated by the desire to improve and expand the benefits of the organisation to their community. However, development is also expected to generate benefits for the organisations. Two-thirds of those organisations with development ambitions expect their projects to result in an increase in overall income levels. A third of the organisations also expect their projects to increase the number of employees within the organisation (Table 4-13).

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**Table 5-2: Potential Benefits for the Organisation from Development**

	<b>Total %</b>
Reach a wider audience/more beneficiaries	75
Increase in overall income levels through higher sales	67
Improve the profile of our organisation	67
Increase number of volunteers	42
Increase number of employees	33
Help to replace reduced funding through higher sales	29

*Source: Telephone Survey, question appropriate to 24 respondents*

- 5.40 However, to achieve these ambitions the majority of organisations will require additional income:
- 15 organisations with development ambitions stated they would have to raise the necessary finance through trading activities;
  - 20 of the 24 organisations stated that they hoped to attract additional grant funding to achieve their plans; and
  - four organisations said they wouldn't or didn't know whether they would require additional income to achieve their ambitions.
- 5.41 The findings show that a high proportion of respondents with development ambitions will be seeking grant funding to achieve their plans. However, Chapter 3 highlighted that access to public sector funding is likely to become increasingly difficult, at least in the short-term.
- 5.42 The need for grant support to achieve development ambitions is evidence of an expectation that development projects do not need to be or perhaps cannot be sufficiently successful in financial terms to cover the costs of the initial investment. Comments made throughout this study suggest that the extent to which finance has been available in Shetland has supported this expectation and a general culture exists where investments in the third sector do not need to generate a return on investment which covers the cost of the investment.

## **Expectations of Impact from Public Sector Cuts**

- 5.43 The potential scale of the likely impact of public sector budget cuts is unclear at this time. The degree to which cuts will be imposed at a local level and the areas that will be targeted are not yet known and therefore the only statement that can be made with any certainty at this time is that public sector spending in Shetland by both local and national organisations will reduce in the very near future, most likely in the financial year 2011/12 and for a number of years afterwards.
- 5.44 The survey respondents' expectation of impact on their organisation from the anticipated public sector budget cuts was tested in the telephone survey. Although it is still unclear how the cuts may be implemented, respondents

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were asked whether they thought it was important for their organisation to reduce dependence on grant funding<sup>3</sup>:

- 41% answered yes;
- 25% answered no;
- 14% didn't know; and
- 21% don't currently receive grant funding.

5.45 Those that answered no were either remarking from a perspective that the value of their service to Shetland is high and therefore it justifies ongoing funding or from a perspective that they receive limited amounts of grant funding.

5.46 Respondents were asked whether they thought the reduction in public sector funding was a threat or an opportunity to their organisation<sup>4</sup>:

- 47% saw it as a threat;
- 3% saw it as an opportunity;
- 15% thought it was both a threat and an opportunity; and
- 36% didn't know.

5.47 Overall, there was a general understanding of the situation, with organisations expecting to reduce their dependence on grants where possible and diversify income streams. A number of organisations felt that they would be able to increase their fundraising in lieu of grants. Comments included:

- *We could upscale the fundraising effort to cover what we need to do;*
- *We may curtail some ambition; and*
- *We will target more sponsorship.*

5.48 There was little evidence gathered in the interviews of latent enterprising ambitions that would be pursued if cuts affected current sources of income. This may be regarded as a disappointing indicator of the current approach to enterprising and suggests that the development of more enterprising behaviour is likely to be challenging.

5.49 Those who saw the predicted reduction in funding as a particular threat were:

- those heavily reliant on the public sector for revenue funding, either through grants or Service Level Agreements; and
- those requiring funding for capital works.

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<sup>3</sup> Figures do not sum due to rounding.

<sup>4</sup> Figures do not sum due to rounding.

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- 5.50 Other threats identified included a possible reduction in population and disposable income, making it more difficult to fundraise and/or bring in income.
- 5.51 Opportunities that respondents considered may result from public sector cuts included:
- *Increased usage of our remote working facilities and use of video conferencing [as people in the public sector travel less]; and*
  - *The delivery of more [outsourced] services.*
- 5.52 A small number of organisations recognised that funding challenges would be significant in the next few years but believed that once the Olympics and Commonwealth Games were held that new funding opportunities would be available and that in the meantime the focus would be on consolidation and the development of perhaps more modest initiatives.

## **A Changing Environment**

- 5.53 Without prompting during the telephone interviews the reaction of respondents to the support provided by the Partners was positive with individuals often singled out for praise. This could lead to a conclusion that if there are no significant threats that little within the support system might need to change. However, the environment has changed. In addition to reduced funding there are likely to be additional challenges created as a result of the pressure on finances. The consultations with the Partners and external stakeholders highlighted that:
- there is increasing pressure to demonstrate value for money within the public sector. This pressure will be extended to the activities and organisations supported by the public sector so that evidence can be provided of the wider value of spending. This suggests that the challenges for the third sector will increase and in addition to previous monitoring requirements organisations in receipt of public sector finance will increasingly have to demonstrate what difference they are achieving through their activity;
  - there is a strategic ambition to reduce grant dependency and support more sustainable organisations in the third sector. Previously in Shetland there has been a relatively widespread expectation that 'Council' funding will be available for projects or organisations which are delivering beneficial activities. Increasingly it is anticipated by consultees that, particularly where enterprising opportunities are available to the third sector, that support will be time limited or linked to specific activities such as one-off projects or purchase agreements for services with the Council as the customer.
  - there will be increasing pressure on those in receipt of grant support to demonstrate potential sustainable operation in the short to medium-term without the need for ongoing public sector funding; and
  - as discussed, new, and as yet poorly defined, threats are appearing through significant public sector budget cuts. One statement which is increasingly being used is achieving 'more for less'. One potential outcome of the cuts in Shetland may be a reduced interest in outsourcing activities where no obvious need to do so is identified. The argument for

outsourcing activities, unless there is a specific need i.e. independence from the public sector, is expected to become more difficult unless substantial improvements in efficiency and cost can be achieved. However, this is likely to be challenging for the third sector in a market the size of Shetland where economies of scale and lower costs can be difficult to achieve.

5.54 Each of these issues along with reductions in the funding available suggest the third sector and the Partners face new and challenging circumstances in the near future.

## SWOT Analysis

5.55 The information presented throughout Chapter 5 is summarised in the following SWOT analysis (Table 5-3). Where appropriate more detailed comments made during the consultations and the workshop are included.

**Table 5-3: Strengths and Weaknesses in the Sector**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Deliver substantial social benefits to both volunteers and beneficiaries of their activities</li> <li>• Can operate successfully in communities where the public or private sector may have difficulties or not be interested</li> <li>• Have local knowledge / can generate good ideas</li> <li>• Can have clear community mandate / strong sense of community</li> <li>• Generate economic benefits through employment, visitor services and by leveraging in finance to Shetland</li> <li>• Are often highly driven and resilient organisations</li> <li>• Range of funding sources available</li> <li>• Previously has been easy to access local public sector funds (viewed by some as a weakness)</li> <li>• Willingness of local community to donate funds</li> </ul>	<ul style="list-style-type: none"> <li>• Complexity of regulations can make operation increasingly difficult</li> <li>• Volunteer reluctance to take on liability and bureaucracy / Directors often don't realise what they're responsible for</li> <li>• Benefits are often intangible / sector is poor at communicating what they do</li> <li>• If dependent on volunteer time there can be a lack of time to invest</li> <li>• Volunteer burn-out / fatigue, each organisation can be reliant on a single person or small number of people</li> <li>• Can be unrealistic about what can be achieved and often want to achieve everything at once</li> <li>• Expectation that grant funding will be available</li> <li>• Can lack experience to be employers</li> <li>• Lack of business skills and as a result problems are often recognised too late</li> <li>• Can take a number of years to develop new income streams and maintaining alternative forms of income in this timeframe can be challenging</li> <li>• If in receipt of funding for core activities surplus may be retrieved by funding body which can be a disincentive for enterprising and efficient behaviour</li> <li>• Sector in Shetland is highly fragmented</li> </ul>

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Opportunities	Threats
<ul style="list-style-type: none"> <li>• Opportunity to step into gaps left by the public sector although a source of income would have to be established</li> <li>• Development opportunities exist but it is expected that the cost of operation will have to be covered by the potential income which can be generated</li> <li>• Increased fundraising and sponsorship activity</li> </ul>	<ul style="list-style-type: none"> <li>• Public sector budget cuts limiting access to both revenue and capital finance</li> <li>• Competition for finance with other activities combined with weaknesses in demonstrating and communicating value</li> <li>• Public sector budget cuts leading to a potential decline in service provision, including outsourced services</li> <li>• Expectation of beneficiaries that services will be provided at zero or low cost</li> <li>• Reduced disposable income within resident population if economy dips following public sector budget cuts</li> </ul>

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## Summary

5.56 Third sector organisations in Shetland play a vital role in Shetland through:

- stimulating community engagement, a role that would be nearly impossible for others to fulfil;
- supporting the well-being of individuals, both volunteers and beneficiaries;
- skills development; and
- the generation of employment and income in Shetland.

5.57 The research has identified a wide range of development challenges which could discourage more enterprising behaviour in the third sector in Shetland. Some of these barriers are internal to the organisations, others exist in the environment in which they operate. The following summary highlights the most prominent internal and external barriers that may restrict enterprising behaviour.

### Internal Barriers to Development

- a shortage of human resources, either volunteer or employee time, to identify and pursue new opportunities;
- difficulties accessing finance to invest in new activities;
- commercial skills gaps which are valuable in the development of more enterprising behaviour;
- a culture which is resistant to a commercial approach and averse to the concept of profit generation; and
- a reluctance to take risk, possibly due to the voluntary nature of many organisations where there may be concerns about liability and/or because little reward is likely to accrue to individuals as a result of risk taking.

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### External Barriers to Development

- the survey findings highlighted concerns about the regulatory and bureaucratic pressures which voluntary and community organisations face. There are likely to be concerns that developing new streams of income will only increase this pressure;
- some funding systems require that if an organisation makes a financial profit or surplus that this must be returned to the funder. This is likely to be a disincentive to become more efficient or generate more income as there will be no immediate benefit to the organisation;
- the consumers or users of the services and/or products of the third sector expect these to be provided for free or at very low cost. This makes it difficult to generate sufficient income;
- the size of the market in Shetland may hinder organisations from achieving sufficient economies of scale to become commercially successful; and
- conditions associated with funding streams can make it difficult to alter the focus of the organisation, and there can be conflict between funding conditions and the ambitions of an organisation to develop.

5.58 Despite the challenges the survey findings suggest a high degree of confidence in future income growth amongst third sector organisations. However, there is a wider context which suggests that the environment for organisations in the third sector may be about to become more challenging. There is little evidence that development challenges such as volunteer shortage and rising bureaucracy can be easily reversed. Add to this the problem of limited commercial skills, reducing public sector resources and increasing pressure to demonstrate value and the Partners objective of supporting a more enterprising third sector appears challenging.

5.59 The likelihood that diminishing, or at best stable resources, will be available to overcome existing and new challenges and support development ambitions in the third sector means that resources, both financial and human, will have to be targeted to maximise the positive long-term benefit to the sector and Shetland as a whole. As the challenges grow this is likely to mean reducing current support for some activities.

5.60 The following chapter explores how the findings of the Review might be turned into policy and actions which enable resources to be better targeted to both meet the needs of the sector and the Partners objectives for sustainable development.

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## 6 Policy and Action Plan

- 6.1 The original brief and requirements for the Review focused on the research and potential development of social enterprises in Shetland. However, the findings of the Review have questioned this as an effective policy approach for the Partners.
- 6.2 The definition of what is and what is not a social enterprise has proven to be problematic for two main reasons. The first is that no clear definition for a social enterprise exists and where research has been undertaken the definition has tended to focus on private sector businesses with primarily social objectives. This is an organisational model which is not particularly prevalent in Shetland. The second reason is that even when a definition considered to be appropriate to Shetland was developed for the Review the practical application of the definition to the population of organisations in Shetland has been problematic. The indications are that if a focus on social enterprises was adopted as a specific policy approach that it may cause more problems than it solves.
- 6.3 The findings of the Review suggest that a more useful approach in Shetland would be to follow the example set by the recent action plan produced by the Scottish Government which focuses on an 'Enterprising Third Sector' and target initiatives which support enterprising as a characteristic of organisations in the third sector. Although different from how the Review was initially envisaged it is understood that this approach would still meet the needs of the Partners.
- 6.4 However, with a large number of third sector organisations in Shetland and only limited resources to support development it is necessary to attempt to segment the potential third sector market for two reasons:
  - the first reason is to better understand the market being targeted by the Partners; and
  - the second reason is to ensure that where limited resources are being used that they are being used in a way which is most likely to achieve the objectives of the Partners and optimise the value achieved.

### Segmenting the Market

- 6.5 Chapter 4 set out a framework which details four models of third sector organisations that may display enterprising characteristics. The framework is intended as a starting point from which a better understanding of organisations can be achieved. The framework may also help the Partners to identify where and when they would get involved in support activities.
- 6.6 In summary the four models identified are described as follows:
  - Model A: an organisation with similar characteristics to the public sector. This organisation is likely to be delivering an outsourced activity or an activity which closely complements statutory services. Organisations operating under this model can be expected to face similar challenges to public sector organisations, for example budget cuts and pressure to demonstrate value for money. There may be limited evidence of enterprising activity if the organisation has traditionally been heavily

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reliant on grant income and has not experienced a significant change in culture as a result of a shift to service level agreements.

- Model B: an organisation that is essentially a private business with social goals. This model is closest to what many would define as a true social enterprise. Organisations operating under this model can be expected to be vulnerable to changing market conditions in the wider economy and, where public sector spending is part of their income, pressure to demonstrate value for money. The success of this model is highly likely to demand an enterprising approach.
- Model C: an organisation that is likely to have originated as a community or voluntary organisation. Organisations operating under this model may have limited day-to-day exposure to public sector funding issues but may be dependent on public sector funding to pursue development opportunities. Enterprising activity is likely to focus on the generation of sufficient income to cover costs, either operating costs or one-off project costs.
- Model D: these organisations are less well defined and categorisation under this model is expected to be temporary. An organisation falling into this category may be in an embryonic state or experiencing a degree of chaos as a result of either being forced to or choosing to pursue a substantial programme of change. Organisations operating under this model could originate from or be heading for any of the other three models.

- 6.7 The research has shown that the degree to which enterprising activity is evident in an individual organisation will depend on both the internal and external conditions which influence its operation. For example if one organisation has access to a volunteer or employee with commercial or enterprising skills this organisation may demonstrate more enterprising characteristics than a similar organisation which does not have access to commercial skills. Another example where differences may occur is linked to the scale of the external opportunities. For example an organisation that has access to a large market place where there is high demand for its services or products may display more enterprising activity than a similar organisation operating in a smaller market place or community.
- 6.8 The Review findings have been used to inform an outline policy and action plan which has been developed to support the SECRP define how they might best support more enterprising behaviour. The policy and action plan which follows is not proposed as a final document but is a starting point from which it is understood the members of the steering group will develop a more detailed action plan. The creation of an action plan is intended to help the Partners prioritise spending and effort, particularly over the next few years when there may be greater limitation on resources and greater pressure to demonstrate purpose and value.
- 6.9 The policy and action plan is presented as tiers which flow from each other. The first tier is the vision which sets out a long-term ambition for SECRP, the second tier is the core objectives for the short to medium-term. The third tier is the priority areas for action through which the Partners can pursue the objective. The final tier is the actions.
- 6.10 It is important to state that regardless of the eventual content of the policy and action plan this should not mean that individual Partners cannot be

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involved in activity that sits outside the priority areas of activity. However, this ideally will be a conscious decision taken because the benefits expected from the alternative activity are such that they warrant investment in addition, or instead of, a particular action in the plan.

- 6.11 The remainder of this chapter is intended to be extracted from this report and developed further by the client group as their own document. For this purpose the majority of the text has been written as if the document has been prepared by the Partners.
- 6.12 The title 'An Enterprising Third Sector' has been proposed.

*The remainder of the document is an outline Policy and Action Plan for SECRP. The text has been written as if by SECRP so that it can be extracted by the Partners and developed further.*

## **An Enterprising Third Sector**

### **Introduction**

- 6.13 The third sector in Shetland plays a vital role in community cohesion and regeneration. Third sector organisations are often represented by determined and driven individuals with an interest in a specific community or issue. This effort is often provided voluntarily in order to secure vital social benefits within our community.
- 6.14 Benefits generated by these organisations include, but are not limited to, the preservation of our culture and heritage, provision of services and facilities in peripheral areas, a sense of community, skills development and mental and physical well-being. Each week the Shetland Times is full of reports on the activity of these organisations and advertises about their upcoming activities but often their value is difficult to quantify or clearly express.
- 6.15 A wide array of support has been available locally, nationally and internationally. In particular, the relative wealth of Shetland Islands Council and organisations such as the Shetland Charitable Trust has enabled locally generated funds to be used to support the third sector and as a result the sector has flourished in the islands.
- 6.16 In addition many organisations in the third sector generate their own income which contributes to the operation of the organisation. However, many of the existing and emerging challenges for third sector organisations suggest there is a growing need to develop more enterprising behaviour within the third sector. The growing pressure on public sector resources is likely to mean that many in the third sector will have to find new sources of income. The SECRP Policy and Action Plan presented here is designed to support the sector to pursue more enterprising activity, support sustainable organisations and reduce dependency on grant income.
- 6.17 The Partnership recognises that there is a difficult period ahead for many third sector organisations and they wish to support organisations to overcome the challenges they face. During this difficult period it will be important that the limited resources, both money and effort, which are

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available to the Partnership are used to maximise the benefit to the community of Shetland.

- 6.18 The purpose of the Action Plan is to enable us to effectively support third sector organisations with enterprising potential to secure a successful and sustainable future.

<INTRODUCTION SIGNED BY THE PARTNERS>

## Vision

- 6.19 The Partnership's long-term vision for the third sector in Shetland is:

*'Third sector organisations are recognised for their unique and vital role in supporting Shetland's communities to be vibrant and thriving places to live and work. Their activity supports the provision of social and economic opportunities for all and stimulates community cohesion and regeneration throughout Shetland.'*

*'Shetland's third sector organisations are known for their enterprising and flexible approach. The successful combination of volunteer effort, sustainable income sources and a focus on achieving the best community value from activities supports the long-term sustainability of the sector.'*

- 6.20 The Partnership's vision for its own role in the further development of an enterprising third sector is:

*'The Partnership will work efficiently and effectively to ensure optimal benefits can be achieved from the available resources. A focused and easy to navigate portfolio of support mechanisms will be available to organisations in the third sector which share the Partners' vision for the sector.'*

## Objectives for SECRP

- 6.21 The conditions within which this policy and action plan have been created are challenging. The culture in Shetland has supported an expectation of financial support for organisations and an expectation amongst those that benefit from the activities of the third sector that they will be accessible at low or zero cost. However, there is a shift in focus, although Shetland remains relatively wealthy and may be cushioned from the worst of the public sector cuts by its community resources, there is an ongoing movement away from the provision of grants towards an expectation of more sustainable operation within the third sector.
- 6.22 The above vision sets out the long-term goals for the third sector and the Partnership. However in the short-term this vision is refined down to two objectives which are designed to focus activity and support progress towards the vision. Our objectives are:
- *To support organisations to pursue enterprising activities that will generate sustainable income sources for the organisation; and*
  - *To support organisations to consolidate and streamline activities to ensure best value is achieved from the effort and resources invested.*

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- 6.23 Sustainable income is defined as non-grant income created by the effort and activities of those within the organisation. For example, membership fees, income from the hire of equipment and facilities, income from the sale of products, income from charging for services (including Service Level Agreements).

## Priority Areas for Action

- 6.24 In the challenging conditions which prevail at this time it is important to focus support where it will have the most difference. The following priority areas for action have been identified for the SECRP as a first step in achieving the objectives above and overcoming the challenges in a way that is positive and will present the best potential for success during a difficult period.

- 1. Support the progression of organisations that are undertaking a significant programme of change and are pro-actively pursuing external sources of sustainable income generation;**
- 2. Facilitate and support access to skills and knowledge, in particular business skills;**
- 3. Seek opportunities for collaborative working and economies of scale, including the potential merger of organisations, to support efficiency improvements and flexibility within the third sector; and**
- 4. Ensure effective communication between the enterprising third sector and wider stakeholders so both audiences can better understand each other.**

- 6.25 Each of these priorities is discussed in more detail below.

### **Priority One: Support Change Management in Individual Organisations**

- 6.26 The Partners recognise that some organisations in the third sector are likely to face a period of significant uncertainty and that a transitional period of change is likely to be required to adjust to new conditions. The pressure may arise due to withdrawal of funding or the loss of a contract. Pressure to change can create a number of challenges internally such as conflict between Board or Committee members over the direction to take and low morale amongst staff and/or volunteers.

- 6.27 Too often the challenge of change, and the consequence of failing to implement change, is only recognised once a crisis point has been reached. In organisations where substantive change is necessary it is important to support positive change management prior to the onset of crisis.

- 6.28 The areas identified as appropriate for action under this priority include:

- a coherent single service tailored to the needs of an organisation (pre-crisis) and coordinated by a single lead contact. The service will provide tailored one-to-one support for a change management strategy and business plan which is appropriate to the needs of the organisation;
- expansion of the Community Regeneration Policy (CRP) to create an additional phase. The purpose of the additional phase would be to create a long-term plan for the organisation that clearly sets out what the future

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structure and activity of the organisation should be, including its sources of income, beyond the CRP supported period. Although this phase is focused on the end of the CRP process it should be designed at the very beginning and the content and direction of the plan should inform the investment decisions and activities undertaken during the more intensively supported period. By using the long-term plan to inform early investment decisions the organisation should be better placed to operate sustainably at the end of the intensive CRP period. In essence this additional phase, and the plan developed, would act as an exit strategy for the organisation once the support is brought to an end. The introduction of a long-term plan should create a shared understanding of the future path and ensure that actions identified in the initial development plan are supportive of the long-term strategy; and

- investigate the potential that organisations actively pursuing long-term sustainable development may be able to retain surpluses generated. Currently the return of surpluses to funding organisations at the end of a financial year can be viewed as a disincentive to enterprising activity and efficiency.

### **Priority Two: Facilitate and Support Access to Skills and Knowledge, in particular Business Skills**

- 6.29 The demands on the skills of those that manage third sector organisations are continually increasing and this is manifesting itself in volunteer fatigue and difficulties attracting new volunteers. Bureaucracy, regulation, liability and accountability all require highly varied and demanding skills. For many third sector organisations these requirements are placed on volunteers in what would otherwise be free time.
- 6.30 If an organisation seeks to or is forced to become more enterprising this will demand new and additional skills to those that may already exist in the organisation. These skills will be required at Committee level and throughout the organisation. Requirements are likely to include business skills such as financial management, contractual management and marketing. In organisations where one or only a small number of individuals take responsibility for the management of an organisation this need to develop new skills will be particularly challenging and may lead to undue and potentially damaging pressure. It will be extremely important for the support agencies to recognise where capacity does and does not exist prior to encouraging or supporting organisations to develop more enterprising characteristics.
- 6.31 Furthermore the anticipated challenge for third sector organisations to more clearly demonstrate the value generated from the use of public sector resources will add further pressure and again demand additional knowledge.
- 6.32 Priority areas for action include:
- Support for training in specific business skills;
  - Encourage public, private or third sector organisations with the required skills to offer staff/volunteer time to third sector organisations with skills gaps;

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- Networking opportunities to enable organisations to learn from each other; and
  - Use role models to demonstrate the value of specific skills.

### **Priority Three: Collaborative Working and Improved Efficiency**

- 6.33 The challenge of securing a more enterprising third sector should not be underestimated. Developing income streams and commercial skills within the third sector will take time and cultural and scale barriers may make it extremely difficult for many organisations to achieve this goal. Indeed many may not wish to and will choose to rely on reducing their activities and therefore their costs or increasing their fundraising activities rather than generate earned income to replace any lost grant income.
- 6.34 However, where there is a willingness to become more enterprising it may be that scale or skill barriers are hindering success. For example an organisation may be ready to generate more income but its capacity to do so may be restricted to the degree that it cannot pursue available opportunities. In this situation it is necessary to explore how new capacity can be created or existing capacity can be freed up to pursue opportunities. Priority areas for action include:
- Support organisations to collaborate or merge with similar organisations or with organisations operating in the same geographical area in order to achieve economies of scale, access specific skills or achieve efficiencies in certain activities; and
  - Investigate whether central or umbrella organisations could provide functions to free up capacity within third sector organisations.

### **Priority Four: Effective Communication**

- 6.35 In the changing environment which is anticipated for third sector organisations it will be crucial for successful transition that all stakeholders transfer information and knowledge about changes and opportunities as effectively as possible.
- 6.36 Priority areas for communication activities include:
- promotion of the value of the third sector to stakeholders;
  - promotion of the value of involvement in the third sector; and
  - communication of the challenges that are facing organisations that receive support (revenue or capital support) from the public sector and importantly, promotion of the development pathways that might be available to these organisations.

## **Action Plan**

- 6.37 *The following content and structure is proposed prior to completion of the Action Plan by the Partners.*
- 6.38 A small number of actions are proposed in the action plan. These actions have been identified in order to best meet the priorities identified in the policy above. The purpose of pursuing a focused action plan is to ensure

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that sufficient resources can be allocated to each action to ensure thorough investigation and, if appropriate, implementation in a short timeframe. Rapid progression of potential actions is highly recommended so that the potential support mechanisms which arise can be introduced quickly to maximise benefit in the changing environment.

- 6.39 Each action proposed will benefit from further investigation and an implementation plan.

**P1: Support the progression of organisations that are undertaking a significant programme of change and are pro-actively pursuing sources of sustainable income generation**

Ref	Proposed Action	Target Beneficiaries	Target Benefits	Lead Agency and Partners	Estimated Cost	Timescale	Fit with other objectives
1.1	Create a tailored progression plan with organisations on a one-to-one basis. Core activities are likely to include development of a long-term strategy, a detailed business plan, skills audit and funding identification for transitional period. This should include a plan to support the organisation to shift from a period of intensive support to greater independence. Within this action consider a phase four to the community regeneration policy which supports an organisation to develop a long-term plan for the period between start-up support and greater independence.	Individual third sector organisations pursuing a substantive programme of change (Model D organisations)	To support an organisation's progression to a more enterprising, stable and sustainable organisation				
1.2	Investigate under what conditions it may be possible for individual organisations to retain surplus from SCT funding so as to enable enterprising activity to take place. For example conditions may include the organisation preparing a detailed plan for how a surplus will be used and an expression of the value that this would provide to community.	Organisations with ambitions to undertake more enterprising activity but that are discouraged from doing so because of inability to reinvest earnings in their own activities. (Organisational Models A, C and D)	More enterprising activity. Better return on SCT investment (dependent on a higher social return being achieved than the financial return that would otherwise be achieved from SCT reinvesting the funds)				

**P2: Facilitate and support access to skills and knowledge, in particular business skills**

Ref	Proposed Action	Target Beneficiaries	Target Benefits	Lead Agency and Partners	Estimated Cost	Timescale	Achievability
2.1	Investigate potential for mentors from the public, private or third sector to provide support. Organisations such as the Rotary Club may be asked to provide support	Individual third sector organisations pursuing more enterprising activity (May benefit all organisational models where change is being pursued)	Transfer of knowledge and skills Encourage new volunteers into the sector				

**P3: Seek opportunities for collaborative working and economies of scale to support efficiency improvements within the third sector**

Ref	Proposed Action	Target Beneficiaries	Target Benefits	Lead Agency and Partners	Estimated Cost	Timescale	Achievability
3.1	Support organisations operating in the same geographic area or in a similar subject area to investigate efficiency improvements through either merger or collaboration in certain areas of activity. One model may be the use of an umbrella organisation to present an overarching strategic plan or joint purchasing agreements.	Organisations that find it difficult to manage existing operations within available and potentially diminishing resources. Organisations that find it difficult to pursue new opportunities because of the pressure of existing day-to-day operations. (All organisational models)	More efficient and effective organisations. A reversal of the fragmentation of groups that has been supported by previous approaches to grant allocation. Shared volunteer resources.				

**P4: Effective communication between the enterprising third sector and wider stakeholders**

Ref	Proposed Action	Target Beneficiaries	Target Benefits	Lead Agency and Partners	Estimated Cost	Timescale	Achievability
4.1	A third sector event which can be used to communicate current conditions and achieve one or more of the other objectives identified in the policy, for example access to skills and knowledge. Event could either target all in the third sector or particular segments of the third sector that share characteristics.	All third sector organisations (All organisational models)	Improved knowledge about the current environment. Opportunities to learn from others who have already taken steps towards being more enterprising. Positive and effective relationships between stakeholders.				
4.2	Investigate way in which organisations may demonstrate benefit, in particular social benefit, from their activities in order to meet the needs of a range of stakeholders who may require information.	All third sector organisations (All organisational models)	A single approach adopted throughout Shetland to demonstrate benefit..				
4.3	Ensure third sector organisations are aware that mainstream business development pathways are available to them if pursuing enterprising activity.	All third sector organisations (All organisational models)	Avoid duplication of effort and unnecessary fragmentation of support mechanisms.				

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# Appendix A: Online Survey Respondents

## **Name of Organisation**

Aald Skule Recycling Unit  
Advocacy Shetland  
Age Concern (Lerwick) Branch  
Aith Public Hall  
Baltasound Hall  
Bluemull Development Company Limited (formerly IatE NI)  
Bressay Sports Club  
Bridge End Outdoor Centre  
British Heart Foundation (Shetland)  
British Red Cross Society  
Burra Playgroup  
CADSS  
Community Mediation Team within CAB Shetland  
Cope Ltd  
Crossroads Shetland  
Cunningsburgh Public Hall  
Cunningsburgh Village Club  
Disability Shetland  
Fair Isle Public Hall  
Family Mediation Shetland  
Fetlar Community Association  
Filsket Riding Club  
Foula Heritage  
GlobalYell Ltd  
Gulberwick Together  
Hillswick Public Hall  
Lerwick Boating Club  
Levenwick Village Club  
Mid Yell Public Hall  
Moving On Employment Project  
Muckle Roe Hall  
Ness Boating Club  
North Shetland Training Group  
North Stoney Hill Community Association  
North Yell Development Council  
Northmavine Community Development Company  
Ollaberry Community Enterprises  
One Step Beyond  
Reawick & District Boating Club  
Relationships Scotland Couple Counselling Shetland

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Sail Training Shetland  
Sandwick Social and Economic Development Co  
Scalloway Youth Centre  
Shetland Anglers Association  
Shetland Arts Development Agency  
Shetland Befriending Scheme  
Shetland Bereavement Support Service  
Shetland Blues Festival  
Shetland Island Games Association  
Shetland Islands Citizens Advice Bureau  
Shetland Link Up  
Shetland Organics Community Interest Company  
Shetland Recreational Trust  
Shetland Youth Information Service  
Skeld Caravan and Campsite  
Skeld Hall  
Sound Community Association  
South Yell Boating Club  
St Olaf Community Club  
Sullom & Gunnister Hall  
Tangwick Haa Museum  
The Belmont Trust  
The Hanseatic Booth Conservation and Restoration Trust  
The Herra Hall  
Tingwall Public Hall  
Turning Point Craft Initiative  
Unst Boating Club  
Unst Partnership  
Unst Youth Centre ( Youth Club)  
Waas Community Development Group  
Walls Regatta Club  
Westsandwick Public Hall  
Whalsay Minibus Association  
Whalsay Public Hall (known as the Isbister Public Hall)  
WRVS Shetland

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# Appendix B: Telephone Survey Respondents

## **Name of Organisation**

Age Concern (Lerwick) Branch  
Aith Boating Club  
Auld Skule Recycling Unit  
Belmont Trust  
Bluemull Development Company Limited  
Bressay Sports Club  
Bridge End Outdoor Centre  
British Heart Foundation (Shetland)  
British Red Cross  
Burra Playgroup  
COPE  
Crossroads  
Cunningsburgh Public Hall  
Fair Isle Public Hall  
Family Mediation Shetland  
Fetlar Community Association  
Global Yell Ltd  
Guilberwick Together  
Lerwick Boating Club  
Levenwick Village Club  
Muckle Roe Hall  
Name of Organisation  
North Shetland Training Group  
North Stoney Hill Community Association  
Northmavine Community Development Company  
Ollaberry Community Enterprises  
Reawick & District Boating Club  
Relationship Scotland Couple Counselling Shetland  
Sail Training Shetland  
Sandwick Social and Economic Development Co  
Shetland Anglers Association  
Shetland Arts Development Agency  
Shetland Befriending Support Service  
Shetland Organics Community Interest Company  
Shetland Youth Information Service  
Skeld Caravan Campsite  
Skeld Hall  
Sound Community Association  
Sullom and Gunnister Hall  
Tingwall Hall

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Turning Point Craft Initiative  
Unst Partnership  
Unst Youth Centre  
Waas Community Development Group  
Whalsay Minibus Association

# Appendix C: SWOT by Individual Model

The following SWOT analyses were developed during the workshop with Steering Group Partners in August.

## Model A

6.40 Model A represents an organisation with similar characteristics to the public sector. This organisation is likely to be delivering an outsourced activity or an activity which closely complements statutory services. Organisations operating under this model can be expected to face similar challenges to public sector organisations, for example budget cuts and pressure to demonstrate value for money. There may be limited evidence of enterprising activity if the organisation has traditionally been heavily reliant on grant income and has not experienced a significant change in culture as a result of a shift to service level agreements.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Passion and commitment</li> <li>• Flexibility</li> <li>• Independence</li> <li>• Value to individuals receiving support</li> </ul>	<ul style="list-style-type: none"> <li>• Organisational capacity e.g. volunteers</li> <li>• Succession planning</li> <li>• Burnout</li> <li>• Short-term posts due to funding</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Access to external funding</li> <li>• Support from agencies</li> <li>• Service delivery in partnership with public sector</li> </ul>	<ul style="list-style-type: none"> <li>• Vulnerable to policy changes / political decisions</li> <li>• Vulnerable to budget cuts / changes</li> </ul>

## Model B

6.1 Model B represents an organisation that is essentially a private business with social goals. This model is closest to what many would define as a true social enterprise. Organisations operating under this model can be expected to be vulnerable to changing market conditions in the wider economy and, where public sector spending is part of their income, pressure to demonstrate value for money. The success of this model is highly likely to demand an enterprising approach.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Operates in niche markets</li> <li>• Innovative</li> <li>• Community support</li> <li>• Flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Business start-up skills / knowledge</li> <li>• Experience of running a business</li> <li>• Obtaining start-up finance</li> <li>• Risk of being 'new'</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Income generation</li> <li>• New external markets</li> </ul>	<ul style="list-style-type: none"> <li>• State Aid issues</li> <li>• Political decisions</li> <li>• Lack of understanding</li> <li>• Public perception of what they are / do</li> </ul>

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## Model C

- 6.1 Model C represents an organisation that is likely to have originated as a community or voluntary organisation. Organisations operating under this model may have limited day-to-day exposure to public sector funding issues but may be dependent on public sector funding to pursue development opportunities. Enterprising activity is likely to focus on the generation of sufficient income to cover costs, either operating costs or one-off project costs.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Volunteer drive and enthusiasm</li> <li>• Community support</li> <li>• Fundraising</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of knowledge of legislation etc</li> <li>• Lack of enterprise skills / skills to generate income</li> <li>• Weak governance / committee skills</li> <li>• Lack of financial reserves</li> <li>• Complacency (affluent Shetland)</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Gaps left by public sector if services withdrawn / reduce</li> </ul>	<ul style="list-style-type: none"> <li>• Increased bureaucracy</li> <li>• Increased competition for finance for asset development</li> </ul>

## Model D

- 6.1 Model D organisations are perhaps less well defined and categorisation under this model is expected to be temporary. An organisation falling into this category may be in an embryonic state or experiencing a degree of chaos as a result of either being forced to or choosing to pursue a substantial programme of change. Organisations operating under this model could originate from or be heading for any of the other three models.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Willingness to change</li> <li>• Ability to respond</li> <li>• Can exploit opportunities / flexible</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulty demonstrating value</li> <li>• Lack of a culture of best value</li> <li>• Lack of buy-in at Board level</li> <li>• Lack of understanding of service level agreements (on both customer and supplier side)</li> <li>• Loss of focus whilst going through change</li> <li>• Culture of complacency 'cuts won't happen in Shetland'</li> <li>• Low morale within organisation during period of transition</li> <li>• Conflict between social purpose and income generation</li> </ul>

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**Opportunities**

- Service gaps

**Threats**

- Public perception of what you are/do
  - Economic downturn
  - Unrealistic expectations of service level agreements
  - Competency of customer
  - Support agencies with conflicting 'goals'
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