

Shetland Social Enterprise Review

Executive Summary

January 2011

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

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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 a national and international 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 suggests the first type of organisation is closer to the underlying concept of a 'social enterprise'. However, while social enterprise remains the favoured term, the debate about what is a social enterprise is unlikely to be resolved to the satisfaction of all who view the development of both types of organisation 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.

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 means 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 to reduce their fragility and their 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 policy approach would be to 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 a focus on social enterprises mid-way through the Review has affected the content of the report and the remainder of the Executive Summary reflects the new approach. All of the research undertaken for the Review prior to the change remains relevant and is incorporated throughout the report.

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 remainder are area specific;
- 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;

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- 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
 - 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 Review 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 respondents 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 a 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 their characteristics appear to be closely linked to their approach towards enterprising activity. Using the information collected during the Review the study team identified four broad types of organisation and each is 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. For example, when investment decisions are being made and actions identified the Partners could use the framework 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.

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 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>	<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>

The Value of the Third Sector

The surveys found that the organisations generate value across a number of areas in the Shetland community and economy. The direct impacts which occur 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 any other route;
- **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.

Benefits in addition to these impacts 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 positive knock-on benefits for 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 within third sector organisations there are also external factors that could discourage more enterprising behaviour in the third sector in Shetland. These include:

- public sector budget cuts and their 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 direct 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 and the revised focus of the project the following vision, objectives and priorities are proposed for SECRP.

Vision

The long-term vision for an enterprising 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

The following objectives are proposed to create focus, address the current challenges faced by the sector and pursue the vision set out above. The objectives are to:

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

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 and it is understood the Steering Group will build on this to develop a more detailed action plan.

Conclusion

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.