Learning from failure, ambiguity and trust in social enterprise

Pam Seanor and Julia Meaton
Huddersfield University Business School, University of Huddersfield, Huddersfield, UK

Abstract

Purpose – The paper aims to present case studies to uncover the reflections of key participants in a social enterprise network in West Yorkshire. It considers how they learn from failure and how they make sense of the variety of messages about, and approaches to, social enterprise.

Design/methodology/approach – The approach taken is based upon sense making in organisations. The paper builds upon the concept of ambiguity as well as Sydow’s framework of inter-organisational trust. Participant drawings of these ideas were used to enhance data generated from face to face interviews.

Findings – The paper reviews actors’ experiences of failure in projects to explore the relationships of those active in social enterprises and support agencies. From this perspective, uncertainty, ambiguity and unexpected insights into mistrust between organisations were identified as underlying themes.

Research limitations/implications – The concepts of uncertainty, ambiguity, trust and mistrust offer rich ways of perceiving the problems faced by social enterprises. They provide a framework to aid discussions of social enterprise development between academics and practitioners. These concepts may go towards improving understanding in resolving problems and be beneficial in formulating policies and practices that improve service delivery within communities.

Originality/value – Little research looks at lessons learnt from failure and associated issues of ambiguity and trust between social enterprises at a network level. If smaller social enterprises are going to work together in co-ordinated activity to deliver social projects and to offer economies of scale in contract delivery, trust will be essential. This paper suggests that further research in this area is needed to consider the quality of relationships being nurtured.

Keywords Uncertainty management, Trust, United Kingdom, Social factors, Business enterprise, Social progress

Paper type Research paper

Introduction

Social enterprise, in the UK, is promoted by stories of successful individuals and enterprises. Stories of success and growth have received much attention and have provided a wealth of knowledge for developing this field of research. Changes are seen to be occurring at an accelerating pace (Nyssens, 2006; Aiken, 2007; SEC, 2007). Organisations need to respond ever more quickly to this uncertain and changing environment. However, social enterprise development appears to overlook the stories of struggling or failing social enterprises and the lessons learnt. Research into social enterprise is in its early stages and if it is to develop a rigorous knowledge base, it is necessary to understand the experiences learnt from both successful and struggling organisations.

Social enterprise is being promoted at a time when grant funding is coming to an end and statutory services are beginning to be contracted or delivered through service level agreements. Government is promoting social enterprise as a means of encouraging local economic regeneration, community engagement and improved...
public service delivery (Kerlin, 2006). However, the change from grant funding to contracts and service level agreements is complex and may be a source of tension.

This paper seeks to draw attention to organisational tensions and some of the factors associated with organisational failure. For example, when an organisation faces insolvency, lack of funding is clearly the contributing final straw. However, failure for social enterprise can be broader than financial insolvency and can also be about not meeting social aims or disappointing socio-political expectations (Foster and Bradach, 2005; Hulgard and Spear, 2006).

The aim of this paper is to identify what lessons can be learnt from failure and follows the challenge outlined by Pharoah et al. (2004) that questioned the “peaches and cream” achievability of satisfying both social and economic goals. The first section of the paper outlines the tensions in social enterprise and the conceptual issues of ambiguity and trust. In the second section, we report on four organisations that have experienced failure and their relationships with other social enterprises as well as their support agencies. In the third section, the nature of organisational identity is explored. This section argues that researchers and practitioners need to look beyond the assumptions that individual social entrepreneurs drive successful organisations (Light, 2006). Four key themes are identified: identity and language, communication and information, operating environments and intentions and outcomes. The ambiguity of organisational identity, values and practices are considered along with issues of trust and networks. The final section seeks to make sense of these themes and discusses the implications for social enterprise development.

**Tensions in social enterprise linking to trust and ambiguity**

Within the social enterprise literature there is some disagreement on the tensions faced while developing successful social enterprises. One proposition is that there is no tension in balancing social and economic aims (Dees, 1998; Evers, 2001; Emerson, 2003). Others challenge this dominant thread, by claiming that organisational tensions exist (Arthur et al., 2006; Bull, 2006; Nyssens, 2006; Russell and Scott, 2007; Seanor et al., 2007). Russell and Scott (2007, p. 1) argue that describing “the development of social enterprise without reference to what we believe to be inherent conflicts and dilemma are ultimately self-delusory and unhelpful.” This critical stance might, for example, question whether the emphasis upon financial management and business models is appropriate support for social enterprise development since this might lead to social mission “drift” (Anheier, 2000; Mendel, 2003; Dart, 2004).

To give some context to this debate, this section begins with a brief outline of definitions and typologies. There is no single, definition of social enterprise. Much of the literature focuses upon the types and characteristics of the entrepreneur (Nicholls, 2006). Within the field, it is acknowledged that the concepts of social enterprise and social entrepreneurship are evolving (Dees and Anderson, 2006; Light, 2006). While some perceive the lack of a single definition as problematic in during this evolutionary process (Borzaga and Solari, 2001; Pearce, 2003), others believe the blurred nature of the sector’s definition better reflects reality (Pharoah et al., 2004; Light, 2006).

Despite these different opinions, the definition most dominant within the UK, is that defined by Central Government’s Department of Trade and Industry (DTI):

Social enterprises are businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners (Office of the Third Sector, 2007).
This definition emphasises the use of “business solutions to achieve public good”.
Since all those interviewed knew of the government’s definition, it was used for the
purposes of this research.

One of the main focuses of this research was the exploration of the dominant concept
of “heroic” individuals, considered as “forceful engines” driving social enterprise (Dees
et al., 2001; Leadbeater, 1997). This imagery fuels a view of the social entrepreneur as
challenging the failures of society by tackling problems of environmental and economic
degradation. As Skoll advocates:

Social entrepreneurs have a vision of the future and will stop at nothing to see that future
come true. It is up to us to help them succeed in order to ensure that the failures of the past do
not become the failures of the future, and to build a world where all people, regardless of
geography, background, or economic status, enjoy and employ the full range of their talents
and abilities (Nicholls, 2006, p. vi).

This focuses the attention for social enterprise development upon “helping” heroic and
dynamic individuals, who are seen as fundamental catalysts for social change. The
emphasis underlying this approach is that change will occur through the use of
business models (Dees et al., 2001; Dart, 2004). In response, business models and best
practice social enterprise “toolkits” have been developed (Bull, 2006). However, an
argument of this paper is that social enterprise is complex and involves more than the
promotion of business ethos and practices. Social enterprise is underpinned by deeper
themes of social justice, community cohesion, and healthy communities. Local capacity
and social ownership, although not explicit in the government’s definition, are
fundamental characteristics in European contexts (Nyssens, 2006). It is these
underlying social values, the commitment to have people at its heart rather than profit
that is said to drive the social enterprise movement (Pearce, 2003). Social factors are
thus critical to the success and failure of these organisations (Pearce, 2003).

Recognition is an important factor for social enterprises seeking to deliver welfare
services in the UK (Kerlin, 2006). Social enterprise is increasingly being promoted as better
able than government to respond to the needs of disadvantaged communities.[1]The
factors driving this approach reflect a shift to a contracting culture, with welfare services
marketed and sold to customers (Dart, 2004). Social enterprises are active in this new
contractual environment. Instead of just offering services funded by grants, they are
bidding and competing for contracts and service level agreements from statutory agencies
and this shift to contracting may pose a significant challenge to non-profit organisations
and the agencies supporting their development.

Existing organisations, especially those from the voluntary community sector
(VCS), are likely to have well-established procedures and beliefs. In order to take on a
new social enterprise identity, they will need to choose from various interpretations of
“good practice”. Their experiences are likely to differ from newly established social
enterprises that do not have a “history” and it is possible that any refashioning may
cause damaging tensions.

However, not all organisations or projects succeed. While there must be many lessons
learnt by actors experiencing failure, few of these are documented or made public. One of
the few cases explored in the public domain is the collapse of Sheffield Rebuild,
documented in Social Enterprise (2006) magazine. Founders stated that financial
mismanagement and lack of accountability were to blame for Rebuild’s problems
(Stothart, 2006). In focussing upon financial factors, the social factors were overlooked.
However, Stothart (2006, p. 18) noted that, for social enterprises, success is complex as they “operate in a profit-driven marketplace, mixing a social mission and an economic mission; by definition won’t be easy.”

The cases reported here highlight how the attempt to mix social and economic missions can lead to a variety of tensions which, in turn fuel the ambiguity and uncertainty that social enterprises face. Ambiguity, especially of identity, has been perceived as having a negative impact on the development of the sector (Pearce, 2003). However, it can also contribute to the success. Identity is not just about how actors in organisations perceive themselves; it is also how those in intermediate support agencies identify them. Grenier (2006, p. 129) states that:

People who are identified and recognized as social entrepreneurs tend not to have defined themselves as such. Rather they acquire the label and status as a result of some recognition, and what could be thought of as a kind of accreditation, from those support agencies. Social entrepreneurship as a concept and phenomenon can therefore be seen and understood through the actions and identities of individual social entrepreneurs who have been recognized in this way, and also through the criteria and the ambitions of the support organizations which are largely responsible for articulating the boundaries and the priorities for social entrepreneurship as a field.

Grenier’s comment indicates that “status and recognition” by support agencies links to the articulated boundaries and priorities for social entrepreneurship. However, this identification is also important to organisations because it affects their access to support services, funding and information (Hines, 2005). This is important to many organisations in the UK that are dependent upon government policies and the practices of support agencies (Woolcock, 1998; Gilchrist, 2004). Since very little research has been conducted in this area, this research seeks to make a significant contribution.

**Focussing upon ambiguity in social enterprise**

Billis (1993) found that the practices and ethos of actors coming from VCS differed from those in the other sectors. Moreover, he described the ability of the VCS to manoeuvre between the private and public sectors, as the key to the success in many “non-profit” organisations. Figure 1 shows Billis’s (1993) model of ambiguity, outlining the boundaries between public, private and voluntary sectors. The overlapping areas were identified as “zones of ambiguity” where ambiguity is most likely to emerge.

Social entrepreneurship discourse contains similar models, but has identified the overlapping zones as areas of social enterprise activity (Pharoah *et al.*, 2004) or areas that might nurture social entrepreneurs (Leadbeater, 1997). Neither draws on Billis’s notion of ambiguity, and they are linked here. In fact the positive influences associated with ambiguity have all but been ignored in the social enterprise literature. If Billis’s model is related to the cross-sectoral social enterprise landscape model, an alternative image to that of the heroic social entrepreneur can be framed. This recognises the ambiguity and uncertainty experienced by members of existing organisations seeking to develop a social enterprise identity (Russell and Scott, 2007).

Anheier (2000) however disagrees and argues that “larger non-profit organisations are not essentially ambiguous in nature” but are, instead, facing uncertainty. Weick (1995) suggests that uncertainty arises from “not knowing what to do”, or “what not to do”. An example of uncertainty arises when a person does not know how to construct a cash flow, or how to undertake a marketing strategy. Seeking business advice and...
information would resolve the uncertainty. Uncertainty differs from ambiguity in that “ambiguity refers to an ongoing stream that supports several interpretations at the same time” (Weick, 1995, p. 91). He proposes that:

The problem in ambiguity is not that the real world is imperfectly understood and that more information will remedy that. The problem is that information may not resolve misunderstandings (p. 93).

Ambiguity is founded upon the lack of a single clear message upon which individuals can decide to act, or choose not to act. An example of an ambiguous situation might occur when trying to survive changes to funding. One advisor might focus primarily upon financial factors aiming for financial self-sufficiency. Another advisor, with equal certainty might recommend that the organisation operates with a mixed income of grants and contracts. These differences leave the organisation with two contrasting strategies and potentially confused about the best advice to follow in order to meet their economic and social goals. In this scenario, Weick (1995, p. 186) offers:

[…] what gets lost […] is the fact that in a changing world, it is not just the old answers that are suspect. It is also the old questions. And once people are uncertain what questions to ask, then they are put in the position where they have to negotiate some understanding of what they face and what a solution would look like.

In the midst of change, it is often difficult to pause and reflect on which questions to ask, let alone what the solutions may look like. In responding to changes, a key issue for members of potential social enterprises, as well as representatives of support and advisory agencies is the need to discuss and negotiate what change looks like and what social impacts are to be met.

Ambiguity in social enterprise (as in the broader entrepreneurial literature, Lowe, 1995) may be associated with actors taking calculated risks as they work through ambiguous situations. Ambiguity offers a way for social enterprises to look at the “consequences of decisions” so they can choose to enter certain “zones” and choose the
changes they need to take on as they enter these “zones”, the models and the practices they adopt, and the ethos they embrace (Billis, 1993, p. 183).

**Focussing upon trust in social enterprise**

Trust is an important factor for organisations making decisions in an ambiguous situation. The social entrepreneurship literature claims the strength of the UK social enterprise sector lies in its social capital (Defourny, 2001; Evers, 2001; Spear, 2001; Pearce, 2003; Drayton, 2005). One factor associated with social capital is trust between social enterprises and their community users. These relationships of trust, however, are assumed with little or no empirical research evidence.

Trust is one of the key elements of the social capital literature. Putnam (2001) and Coleman (1990) underscore this notion finding that trust holds networks of people (working) together for a common good. However, Putnam (2001), Fukuyama (1995) and Fenton et al. (1999) highlight the erosion of trust between value-based organisations and their user groups. Fenton et al. (1999) assert that the damage to trust and confidence stems from organisations attempting to work in either the public or private sectors, or that a “business-like” culture as opposed to one of altruism will damage trust between the user and the organisation. They (1999, p. 22) argue that users of welfare services have “experienced a profound loss of faith” in state provision, and they prefer to support smaller, local organisations that do not generate profits. They perceive these organisations as holding beliefs and values that make them more trustworthy than profit-generating organisations. Their study showed complex responses and relationships in which users associated trust with local accountability. They found that “the growth of professionalism, marketing and PR is in conflict with the altruistic amateurism which constitutes the image of charity in most people’s minds” and are seriously concerned that trust will be eroded as the third sector loses “a distinctive space that is becoming less clear with the blurring of boundaries between sectors” (Fenton et al., 1999, p. 25). From their perspective, encouraging voluntary organisations to be business-like raises serious questions related to trust and trustworthiness. Instead of promoting a blurring between the sectors, they sound a warning of keeping the sectors separate.

Mizruchi and Yoo (2002) found that “whereas the concepts of trust and reciprocity are key characteristics of the social capital literature, few researchers have considered how these factors influence networks”. Lane (1998) highlights how organisational studies assume trust to be a constitutive property of networks and lists various advantages of trustful relationships including: ease of sharing information and good practice; relationship reciprocity; social capital creation and the co-ordination of activities, projects and programmes. Lane argues that “trust bridges information uncertainty”. Meaning that in order to co-operate and work together on projects where there is risk, participants often rely upon the trustful nature of their relationships with other organisations in the network.

Sydow’s research indicates that trust is more likely to be enhanced between organisations when smaller numbers interact in the network and when these organisations are of a similar size and structure and the actors share norms. This may well apply to social enterprise in the UK as nearly half of all social enterprises are small organisations located in areas of multiple deprivation often evolving from the community voluntary sector (DTI, 2005). Trust is perceived as absorbing the complexity between these diverse, smaller organisations. However, distrust can equally filter complexity in networks and does so by blocking out and narrowing options for working together (Sydow, 1998).
Boussouara and Deakins (2000, p. 206) note that in uncertain situations, dependency upon advisors increases. They cite Webb (1996) in stating “trustworthy advisors ... provide a more textured understanding of the facts and consequences than is possible without them.” This is similar to Cohen and Prusak (2001) who found the need for organisations to place trust in others to follow what the advisor perceives as the best way forward. Defourny (2001) described social enterprise as a process of transformation. However, the social enterprise literature barely examines how actors perceive patterns and adopt new ideas, structures, procedures and systems to transform their organisations (Boussouara and Deakins, 2000; Lawrence et al., 2005). Thus, the issue raised in this research paper is that trustful relationships are not only desirable between social enterprises and their users but also, between social enterprises and support agencies assisting them in choosing appropriate social enterprise models.

To summarise the points made in this section on ambiguity and trust; this paper acknowledges Billis’s (1993) research on ambiguity in voluntary community organisations and links the concept to social enterprise organisational development. Further it suggests that the practices and ethos of actors in newly formed social enterprises may differ from those emerging from existing third sector organisations. With the focus upon business development, little is said about the role of organisational identity and values. The concepts of ambiguity and trust offer a richer way of perceiving the problems faced by social enterprises and provide a framework to aid discussion.

Research design
The study was undertaken with four participating social enterprises and support agencies. The approach taken is based upon sense making in organisations using case studies to reduce ambiguity (Weick, 1995; Mills and Pawson, 2006). The research data were generated in semi-structured interviews with actors from organisations that either went into liquidation or had ceased to support projects between August and October 2006. The interviews lasted between 1 and 1 1/2 hours. Where possible participants attended second interviews, that lasted 1/2 hour, to further discuss these issues.

The cases
Participants were selected for their experiences of failure when responsible for delivering a social enterprise project or programme. Their legal structures and activities were varied in nature. The diversity between these organisations reflects that found across the wider sector (Pearce, 2003). Each case involved small organisations located in West Yorkshire, UK, in receipt of funding or support for social enterprise development. In addition to the “mainstream provider” business link, actors obtained support from local authority service departments, specialist regeneration organisations, voluntary action network, arts council organisations, a local business generator unit and independent consultants.

Case A set up as a co-operative, offering services to disaffected youths. It was awarded best social enterprise of the year 2004 in the “on the up” category by a social enterprise support agency. Within one year of receiving this award the organisation went into voluntary liquidation.

Case B was a local regeneration organisation. It offered support to community groups and social enterprises and provided funding for sustainable projects. The organisation, though autonomous, was closely linked with the local authority, and
delivered contracts under the Single Regeneration Budget, the European Social Fund programme, and the European Regional Development Fund Objective 2 programme. With changes to funding, the organisation was unsuccessful in attempts to continue this relationship or in attempts to transform itself into a regional social enterprise consultancy service and has disbanded.

Case C was the first rural car club in the North of England. This was an innovative project delivered under the umbrella of a company limited by guarantee and run as a community transport organisation. A decision was taken by board members to close the club in October 2006 but the organisation still successfully operates other services.

Case D has set-up two legal structures and continues to trade in the mobile phone games industry. Half of their staff are long-term unemployed young people placed through Job Plus. The profits are not distributed to board members but are fed back into supporting the training and development of long-term unemployed workers. Additionally, they undertake pro-bono work for other organisations with social aims. Though a successful trading company, this organisation is no longer identified (by one of the local support agencies) as a social enterprise.

These organisations had been heralded as successful. The projects that have failed may be a result of financial mismanagement. However, the reflections of participants suggest deeper, underlying patterns. Four patterns were discovered in the data; the examples used reflect comments and drawings that exemplify each theme. What follows are elements from the interview transcripts.

Discussion of the findings
This section of the paper takes an interdisciplinary approach and seeks to make sense of the data generated from interviews using conceptual models from literature outside of the social enterprise field. Drawing on four themes that have been identified in the literature, Figure 2 builds upon elements of Sydow’s (1998) model of inter-organisational trust. Ambiguity has been linked to trust to serve as the framework for the ensuing discussion.

Figure 2. Ambiguity and trust within social enterprise networks
Theme 1: identity and language used in social enterprise networks

How organisations perceive themselves, and how others perceive them, affects how they do business and their access resources. The use of common and shared language affects how organisations do business (Weick, 1995). The organisations in this study all had an understanding of the concept of social enterprise. However, it often better suited their purposes to be able to move between other identities such as community arts organisation, a co-operative, a voluntary agency or a charity. They felt this ambiguity offered them access to new streams of funding, advice and contacts. Rather than adopting a single identity, ambiguity allows exploitation of the uncertainty arising from the variety of social enterprise definitions, as well as the blurred boundaries between different sectors. As such, ambiguity may prove a viable concept offering insights into the diversity within the sector.

Case D originally received funding to set up as a new social enterprise, but subsequently split into two organisations. After this, a representative of a local support agency perceived neither as a social enterprise and stopped access to resources. However, the respondent described their organisation as:

We're two things really; we're a social enterprise. But, we had to split things down because things changed from our original plan. I think, and in order for us to actually become self-sustainable, um, we had to, we had to develop a commercial wing, which actually funds the social enterprise. Because no one pays us for taking work experience, no one pays us for training guys who don't have degrees; no one equips the office for that. So, for us to do that, we have to get cash from somewhere.

The representative from this organisation was openly sceptical of the social enterprise model and the support offered by some support agencies. Rather than focussing upon advice offered, the actor commented on the need for people who worked there to “love to create and design games” as essential to survival. Social enterprise identity was not agreed or clear-cut between actors in these organisations and those offering support. This reiterates the point made by Grenier (2006) and Hines (2005) of the significance of an organisation being identified as a social enterprise by the agencies and the potential for financial support and access to resources.

The actor had little notion of the social enterprise landscape and was surprised to find the social enterprise sector to be more varied than they had been led to believe by support workers. By being seen as outside the sector, the organisation lost opportunities to access support agencies contacts (though they may continue to contact other organisations and agencies independently). This also means that their experience and learning will not be available to others in the social enterprise network. Lost too is the reinforcement of a social enterprise identity, ethos and practices that the network could offer this organisation.

Theme 2: communication and information in social enterprise networks

As identity affects how organisations do business, so too does communication and information. Nicholls (2007) states that how social enterprises communicate their social and environmental values is vital in the search for sustainable solutions to social problems. Sydow (1998) found the frequency and openness of inter-organisational communication increases where there is the possibility of trust. He noted that the capacity to build trusting relationships is hard work, especially at the “blurred boundaries of the networked organisations”. Sydow uses the term “boundary spanners” as a structural
description of the roles individuals take to connect separate organisations. Open face-to-face exchanges, especially where these organisations are in a close geographic proximity, improves the likelihood of better communication and understanding between organisations (Sydow, 1998; Weick, 1995). This in turn is seen to nurture inter-organisational trust. However, the boundary spanner may be a role which small organisations feel they can little afford. These actors may not be able to spare the time needed to attend network meetings and build relationships. If an actor within an organisation were not the “boundary spanner”, this role could be brokered by trusted support agencies, or trusted partners, and the social enterprise could benefit from a more trusting environment.

Communication and information between support agencies and social enterprises are linked to access to financial support. In this local social enterprise network, representatives that offer advice and support are also the means for accessing social enterprise start-up funding and learning grants. This proved a problem for one of the participants who commented that they did not feel they could say they were having problems and were going “tits up” to the support agency. They were in receipt of a wage-subsidy for a worker and needed that worker to continue doing that job in an attempt to get through the crisis. If they mentioned these problems, they feared that this funding would be withdrawn.

This problem has considerable implications for smaller organisations reliant on both financial support as well as transparent and trusting relationships with their advisors when they experience troubles. As discussed, those organisations perceived as social enterprises received access to support, information and advice. However, upon failing, only one organisation was offered support in the form of an exit strategy interview. None of the other participants were offered support at this time. This one organisation was asked to share with an advisor, what they had learnt from their experiences, and how they would take their experiences forward to other projects. Though not seen as the role of support agencies, as they are in the business of creating new businesses, this learning from failure would seem likely to be beneficial in future activities. One support agency actor commented that:

> At the moment people don’t want to talk about it [failure] in the sector. To have gone under in the voluntary sector is a great sin. In the old days, they probably had to do something wrong or smelly to go under. Failure is not perceived the same as in the business sector, it implies more than financial failure.

This fear of something “smelly” affects the information and communication in networks. It does not loop back to the regional support agencies so that they can hear and learn from those who have failed. Not talking about failure may simply be a gap in the culture keen to celebrate success. Nevertheless, there may be more lost than gained by ignoring the lessons learnt from failure.

**Theme 3: operating environments in social enterprise networks**

The operating environment for these organisations is changing from the “business as usual” practice of applying for grant funding towards contracting and selling goods and services. Procurement is a focus of social enterprise development in the UK. This emphasis was seen in the case studies where voluntary community organisations were being encouraged to seek contracts with statutory providers. Each of the organisations has secured income from selling a product or service.
For these organisations, the cross-sectoral overlap (Figure 1) between the public and voluntary sectors is where social enterprises are situated.

As an example, one organisation had decided to pursue social enterprise practices and contracts rather than to continue to seek grant support. They stopped applying for larger funding applications from grant providers. The organisation had taken important steps along the way, as illustrated by the participant’s drawing in Figure 3, moving ever nearer to becoming a social enterprise.

The actor drew the “starting point” as located at the bottom step; this was where, as a voluntary organisation, they initially delivered music and dance projects. They became known for doing work with disaffected youth. The next step they drew, illustrated where they became involved in the delivery of a programme of services, not just single one-off projects. They then began to use the term “outputs” in their organisation. They then moved towards targeting unemployed, yet potentially employable, young persons. From there, they offered qualifications and access to jobs.

It is of note that what drove this organisation to become a social enterprise may have been the funder’s criteria, rather than the needs of the users. Their contract was with the Learning and Skills Council. As such this agency was the paying client, and the organisation needed to meet monitoring and evaluation standards to continue the contract. They felt however that the level of administration and bureaucracy needed to deliver a complicated training programme moved them further away from the needs of their users, disaffected youths, as well as from their own expertise and original passion for doing music and dance. The actor believed that their good reputation was rooted in their ability to engage with the disaffected young people in their communities. He did not believe that the project was any longer driven by the disaffected young people originally involved, who perhaps were not interested in being trained for employment opportunities or getting a recognised qualification. Many young people were there simply to dance or make music.

Another important insight was that they believe that the contract environment “doesn’t exist yet.” The local authority is also in transition. Their experience was that it was not offering contracts but was continuing to offer grants or informal, unwritten agreements for small pieces of project work, and they felt that they had “jumped too soon” as their organisation had only secured one contract.

This example shows two issues that other organisations had also mentioned. One that organisations are being encouraged to shift to social enterprise before local authorities and others have understood and developed policies and procedures to support a contracting environment. Second, the motivation for delivering services is
not being discussed. Funder’s requirements are being met at the expense of the users’ needs. This being the case, a serious question must be raised. When the primary motivation is no longer the user, can business models from the private sector adequately meet the needs for developing these social organisations?

**Theme 4: intentions and outcomes in social enterprise networks**

The intention of social enterprise is to create “public good” or social impact; this can be seen in the OTS definition that states social enterprise is “helping create a strong, sustainable and socially inclusive economy”. This theme explores whether this intention is in balance with the outcomes organisations deliver.

As mentioned, the term “outcomes” has entered the language of the third sector to describe the impacts of the services that organisations deliver. One issue is how the “added value” social enterprises offer results in cheaper service delivery while maintaining services outputs. Aiken (2007, p. 4) considers that social enterprises are seen as “convenient deliverers of central targets rather than acknowledging the more complex role they have been playing in social inclusion and community building.” As Aiken (2007) comments, what is perceived as “added value” by statutory providers seeking service delivery is considered as core to the mission and values of third sector organisations.

As previously highlighted, the relationship between the user, now considered a customer, and the social enterprise is key to the third sector. It is the anticipation of working together in the future that Sydow (1998) finds promotes trust and co-operation between organisations. However, social enterprises competing to secure income through contracts to deliver outcomes may find trust to be fragile in this relationship. Fenton et al. (1999) suggested that damage to trust and confidence stems from move away from an altruistic culture to one which is business-like. The research approach initially assumed the perspective that trust is a key factor in relationships as it assists organisations in working together to deliver co-ordinated projects and outcomes. Stories of mistrust were therefore entirely unexpected, as discussed here:

And it was just the mistrust really. Because when you’ve got competitive bidding rounds, you’re in competition really for the ever decreasing amounts of money. Certainly from our end, not me personally, but from the board level, there was definitely mistrust of other organisations. Definitely mistrust of most of the support agencies right up to the council. Anything on a local level was mistrusted basically. It was an “us and them” mentality. And it was like, well, if we give them our idea, they’re gonna run off and do it and do it wrong. And then nobody will ever give us any money for it again.

From this comment, it appears that competition influences small vulnerable social enterprises to mistrust other organisations. It suggests that the social capital of organisations working together on co-ordinated activities is being undermined or is absent. This lack of trust ultimately weakens the opportunity for groups and agencies to work together to deliver co-ordinated activities in future projects (stories of distrust were told across the wider study). Without trust, smaller organisations may continue to work in isolation and miss out on social and economic benefits of accessing information, sharing good practice, reciprocity in relationships, economies of scale and creating social impact. Instead an environment is fostered where they are encouraged to act independently and scale-up their organisations.
To summarise the four themes in this section, a framework has been developed from the literature and the experiences of participants in local social enterprise and support agency networks. The themes of identity, information, operating environment as well as balancing intentions and outcomes have emerged. These are important issues for the sector. The way members of social enterprise networks, including those developing government policy and delivering programmes of support, frame and approach these problems offers the potential for better understanding of the diverse nature of social enterprises. From an improved position of understanding, a platform can be laid for creating policy and programmes that are better able to make a positive social impact.

Implications: learning from failure in social enterprise
All four of the cases experienced failure and have valuable lessons to share. Failure should not simply be based upon financial insolvency. From this small exploratory study, social factors also contribute to failures in social enterprises. As highlighted, the emphasis on social enterprise development is focused upon successful social entrepreneur and from their business efforts, the growth of their organisations. The emphasis on growth may contribute to a pattern of larger social enterprise organisations competing against one another as opposed to a wider network of smaller organisations working co-operatively. However, the social economy is defined by the existence of small organisations, often with innovative ways of delivering services and goods to their communities, and their loss could be detrimental to the overall economy.

With a focus upon the “heroic” social entrepreneur, the relationship between smaller social enterprises and support agencies is not often discussed. In the UK, support agencies are often the gatekeepers for social enterprises providing access to support, information, advice and finance. Support agencies are usually larger and more powerful than local, social organisations. Importantly, some support agencies now also hold the role of the client paying for social enterprise services. However, the agency is not the direct user. In our research the community organisations have been delivering projects to disadvantaged individuals who are not able to pay directly for the service. Nor do they appear to identify the services the “new clients” are paying for as meeting their needs. As Aiken (2007) notes there is a tension between meeting the requirements of the funders and “real customer needs”. This places social enterprise in a more vulnerable position that differs from selling a service direct to a customer.

In these organisations actors are not making decisions based upon financial information alone. There are complex reasons and motivations behind these actors’ decisions. The process of becoming socially enterprising was perceived to be moving them away from what they were passionate about to become “business administrators” and away from the innovative culture and practices by which they developed a good reputation. However, support agencies appeared to focus efforts towards improved efficiency and largely assumed social capital and relationships was the work for other agencies. This can be associated with the tensions evidenced in this study and raises an important question of whether the focus and, arguably, the imposition of business models as a framework is the best way to develop all organisations.

All actors in the case studies understood the concept of social enterprise. They suggested their identities and practices drifted between the sectors. It was this “chameleon-like” characteristic, sometimes identifying as a voluntary organisation, sometimes private and sometimes as a social enterprise, that they felt enabled them to
better work with various partners. The flexibility they describe of manoeuvring in their operating environments resonated with ambiguity as described by Billis (1993). This ambiguous quality may be a useful strategy for some within the sector, but in being identified exclusively as social enterprises by support agencies the diversity of the sector may be overlooked.

In their attempts to become “contract-ready” most of the actors found that commissioning systems were still being designed and contracts not forthcoming. Both the statutory agencies, as well as smaller organisations, were in a state of transition and have a great deal to learn about doing business in a new way. It will take time before what social enterprises do best is identified and agreed between everyone in this relationship. How will organisations manage the relationships between themselves, their community users, and statutory agencies acting as a customer will need to be negotiated so that new and flexible patterns of working with disadvantaged groups can make positive social impacts. This is ambiguous territory and the process will undoubtedly benefit from nurturing trusting relationships.

This research suggests that trust is not found exclusively between organisations, but rather that distrust exists within social enterprise networks. Distrust may be a useful and sensible tactic for organisations, but it could become a significant barrier that stops people from co-operating and sharing best practise. This may have an impact where social enterprises fail to meet their own social aims as well as the possibility of delivering co-ordinated activities with other social enterprises and agencies. A climate of distrust in the wider social enterprise sector may go some way towards explaining the predominant patterns of larger organisations working in isolation and competition.

And finally, whose role is it to learn from failure in this sector? Those interviewed welcomed the opportunity to discuss what they had learnt. If it is not the remit of business link advisors, directed by Regional Development Agency targets, who in the sector will take up the challenging role of exploring failure? This paper opens up some of the unspoken issues that may crucially need to be discussed, and researched, if an understanding and knowledge on the sector is to develop, as there is as much, if not more, to be learnt from failure as there is success.

Note

References


**Further reading**


**Corresponding author**

Pam Seanor can be contacted at: p.seanor@hud.ac.uk