Swimming Against The Tide: How A Social Business Became A Charity To Secure Its Sustainability

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Third sector managers and governors face a range of options when considering the organisational form through which they provide their services. Traditional models of the charity and of the cooperative or mutual have been supplemented by ‘new’ organisational forms, such as social enterprises and social businesses, and new legal entities, such as community interest companies in England. Policy-makers have in particular increasingly promoted social enterprises and social businesses as innovative and effective alternatives both to state provision and to traditional charity forms (Office of the Third Sector 2006; HM Government 2011). The social enterprise form has been identified in particular as supporting organisational sustainability (HM Treasury 1999; Westall 2001). Potential advantages include: revenue streams through trading and business-like activities; multiple resource streams, so that the vulnerabilities created by dependency on a single resource are avoided; attracting capital investment to support or scale up work; achieving self-sufficiency rather than remaining dependent on philanthropic or state grants. Presentational advantages of the social enterprise form are also identified: social enterprises are regarded to be, in the current political and cultural environment, morally or institutionally legitimate, conforming with privileged values such as self-sufficiency and choice, and with privileged activities such as commercial activity and business-like behaviour (Dart 2004). Given these understandings, the expected pathway for organisations can be predicted to be from charitable behaviours and forms, associated with philanthropy and volunteering, to social enterprise behaviours and forms, associated with trading and (limited) profit-making (note 1 below).

This paper describes a contrary case in which an organisation has apparently swum against the prevailing currents of policy. An organisation in England was set up as a social business to pursue social ends. Its constitution allowed for limited capital investment by individuals, the return on which was tightly capped. However, when faced with the challenge of securing investment to support future sustainability and a scaling-up of its successful services, the organisation converted from this social business form to become a charity. The paper reports the findings of an empirical investigation of the reasons for this change. Through interviews with different key stakeholders – senior managers, trustees, service users and funders – the study explores why this switch from social business to charity was considered necessary. It identifies the particular importance of external stakeholders: the charitable form, to both the users who purchased services and to the investors who provided capital, was considered a ‘safer’ proposition; any emphasis on profit was held to be disquieting, even if the major part of that profit was re-invested in social purposes.

Such findings carry both theoretical and practical implications. There are theoretical insights into the relative advantage of different organisational forms. From a resource dependency perspective, it implies that the social enterprise or social business form is not necessarily more effective in acquiring resources or in securing investment in order to sustain or to scale up a third sector organisation. Much depends on the contingent transaction and the perspectives and situation of both funders and the users who pay for services. In the present case charitable status was held to be a certain signal of the overriding social purpose of the organisation, and also its trustworthiness as a provider of a service. Such findings recall the fundamental insight into the trust advantage of the nonprofit form identified by Hansman (1980). From a practitioner perspective it implies that third sector managers and governors, as they consider the organisational form which will best allow their endeavour to flourish, must be responsive to the particular conditions of the environment in which they work and to the preferences and perspectives of external stakeholders. Contrary to current rhetoric, it may not always be the social enterprise or social business form which confers advantage.
Notes
1. The accuracy of analysis in this field depends upon clarity in definitions of terms such as ‘social enterprise’ and ‘charity’ - and in the behaviours and characteristics which we associate with these terms. It is possible, for instance, under English law, to be both a charity (which is a legal form of organisation) and a social enterprise (which is a normative, but not legal, organisational form).

References


