

# Executive Summary of Social Enterprise Strategy for Derby's Voluntary and Community Sector

Prepared by  
CETA CIC  
On behalf of  
Derby Community Network



## **1. Background**

The Derby community network has commissioned the development of a social enterprise strategy for the voluntary and community sector (VCS) in Derby. With ever increasing pressure on the VCS to deliver more services in a shrinking grant environment the social enterprise option has been embraced by some as a miracle solution for the sector. This has a certain appeal for central government in believing that otherwise grant dependant organisations will find a good business opportunity and start earning their way toward sustainability.

In order to develop a proper framework for VCS organisations in Derby to benefit from this culture of enterprise it was necessary to gauge current understanding of social enterprise at various levels. Voluntary and Community sector organisations were surveyed and some participated in focus groups. A range of stakeholders from the public sector, the VCS and social enterprise and business support organisations were interviewed and also took part in focus groups.

Not surprisingly the range of opinions about social enterprise, what it is and what it does, were as varied as the range of those expressing them. One of the key targets in developing this strategy will be to define social enterprise as it relates to Derby's VCS organisations.

There is not technical legal definition of social enterprise rather a working definition formulated by the social enterprise unit when it was part of the department of trade and industry "a business 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'. There are also guidelines which suggest that social enterprises earn 50% or more of their income from trading activities.

## **2. Rationale**

There are several challenges in developing a social enterprise strategy for the VCS in Derby. The most prominent in these challenges is to define what is meant by social enterprise. Of the many definitions that exist the consistent message across all of them involves trading activity to achieve a social purpose. Unfortunately this is not a straight line relationship in its application to the VCS.

There is no magic line that once crossed an organisation suddenly becomes a social enterprise. There is no legal definition of social

enterprise although certain guidelines have been suggested and widely acknowledged by both government and practitioners in the social enterprise field. For example the DTI set a benchmark of 50% income from trading as a characteristic of a social enterprise. Organisations that have not yet achieved that level of earned income but that have plans to do so might be better referred to as 'emerging' or 'aspiring' social enterprises. By using this reference there will be a better understanding of the support needs of this type of organisation.

### **3. Methodology**

The development of a Social Enterprise strategy for Derby City's Voluntary and Community sector, on behalf of the Derby Community Network has been an interesting and ever moving piece of work.

An agreed process was used to gather information via surveys of the VCS. While we did not have a large return rate, the quality of the information returned was extremely valuable.



### **4. Social Economy**

How can we define something so large and quite diverse? From all of the information we have gathered, people listened to and documents read we have to conclude that having a definition for this work is important for people. That being said, defining what a social enterprise is or is not, should not make any difference to how an organisation operates. If an organisation wishes to conduct itself in a more business like manner while being 100% grant funded does this make it a social enterprise? The answer to that question, after much deliberation and research would have to be no. All organisations should be encouraged to approach their work from a point of view that maximises available resources, but doing so does not turn them into businesses.

The real defining factor between what is seen as enterprising and what can be called a social business is in the definition of its market.

## **5. Trading Social Enterprises**

These are defined by the ability to trade in the open market. These social businesses have the opportunity and the ability to transform economies. The legal framework for social businesses, the Community Interest Company can go a long way towards identification to the private and public sector. Anyone wishing to start up a social business should be encouraged to use this company formation.

## **6. Critical Factors for Success**

### **6.1. Enterprising approach:**

Organisations can examine the way they operate across a range of areas from client services to how they secure office supplies. It is a way to embed a more pro-active approach and less reactive to circumstances.

### **6.2. Spotting opportunities**

Many organisations get so wrapped up in what they are doing it becomes difficult to recognise what is happening in the world outside.

### **6.3 Recognise business limitations**

These may have to do with the marketability of your product or service or they may have to do with the business ability of people running the organisation.

### **6.4 Be willing to kill off or change something that isn't working**

This is probably one of the most difficult and anxiety ridden processes that an organisation can consider. As much of the work that happens in the VCS is driven by a community need or desire to assist, help out or generally make life better – programmes can have deep personal and emotional ties.

### **6.5 Find ways to financially support things of high community need**

Social Enterprises need to make a financial profit but the community profit, the social good, 'the change you are trying to make', they are equally as important. In fact it is often the 'profit' made on one programme that supplements and supports another.

### **6.6 Critical evaluation of ideas**

In our many experiences talking to and working with social enterprises we have found that when a new idea springs up, the excitement and planning takes over and sometimes the idea takes on a life of its own.

## **7. Funding**

Funding was cited in surveys, focus groups and interviews as a critical issue for VCS organisations. However for those in the sector who wish to adopt an enterprise approach they must stop thinking about funding in traditional terms and start focusing on building investment in their organisations. Funding is generally short term and single project based. Investment, on the other hand is about building a solid financial base for the future.

## **8. Capacity Building and Support Needs**

The VCS is inundated with initiatives intended to build the capacity of the sector. The over use of the 'capacity building' terminology might lead us to believe that the sector in fact has no capacity at all. Those we surveyed and talked to cited lack of capacity as a barrier which keeps them from engaging in more enterprising activity; nearly as critical as lack of funding. Indeed some of them feel there is a direct relationship

between lack of funding and lack of capacity; if they had more money capacity would not be such an issue. With more money organisations could buy-in more people and thereby increase their capacity. While this is probably true for many organisations there just is not more money to be had, so this issue must be addressed in other ways.

## **9. Public Sector Procurement**

Futurebuilders investment fund, is a central government initiative to invest in VCS organisations that have potential to deliver public services. Investments are made to assist organisations to increase capacity. They provide working capital so that transition from grant to contract can be achieved in a way that is least stressful to the organisation.

### **9.1 The commissioning scene in Derby**

In Derby the entire Grants to Voluntary and Community Organisations scheme is under review. It is felt that some organisations receiving grants for a number of years are in fact delivering services on behalf of the Local Authority. If this is the case then the LA are obligated to seek a higher level of accountability than has been previously considered. Funding agreements are more likely to become contracts and this brings a new set of priorities for both the commissioner of services and the organisation delivering the contract.

## **10. Business support**

In order for any organisation to undertake trading activities whether it be 10% or 100% of their yearly income, the right business support applied at the right time can be critical in determining success. Mainstream business support is delivered by Business Link, but by their own admission they do not always get it right when working with social enterprises. While 80% of the needs of private and social enterprises are the same it is that critical 20% difference that causes difficulty for a mainstream profit oriented business advisor.

## **11. Asset Development**

Since this report was started the Quirke Review has been published and there is clear message from the highest levels of government that communities can derive great benefit from making use of assets. Assets will provide a key element for ensuring that wealth is embedded in communities. In our survey only a small number of organisations actually indicated that they owned assets but many of them are interested in knowing more about how to acquire and maintain an asset.

## **12. Recommendations and a Case Study Example**

On the basis of the information gathered through the surveys, interviews and focus groups the following recommendations should be considered as critical factors for the development of a thriving and enterprising VCS in Derby. They take account of the various points in the organisational life cycle and have broad application across the full spectrum of Derby's social economy organisations. It is hoped that the DCN Steering Group may adopt some of these initiatives and lobby for resources to take them forward.

## RECOMMENDATIONS

The case study example that follows illustrates how some of these recommendations may be put into action. The case study has been based on knowledge of organisational circumstance but has been embellished in some instances for illustrative purposes. Therefore organisations have not been named specifically.

## **A Case Study Example: Underfunding/ Wrong approach to start-up**

Group B has been operating a community organisation in Derby for the past six years. Their social aim is to engage with those furthest from society's mainstream, building confidence and encouraging them to move forward. They accomplish this using a variety of community development techniques. They have worked with refugees, homeless people and many others experiencing extreme disadvantage. Group B has been considering new ways to generate income so that they can become more financially sustainable as grant funding is more competitive and more difficult to access. Lately they feel they spend all of their spare time fundraising and not enough time developing and delivering services.

Group B responded to a tendering opportunity to run a café in a newly opened building on their local park. It seemed like a great opportunity as millions were spent on the renovation and the marketing effort would surely attract a lot of visitors. Since the café would be fully equipped as part of the building work Group B saw a chance to get involved in a turnkey operation with no initial capital outlay. All profits could go back into supporting the primary activities of the main group. Additionally the business would give their clients opportunities for training and employment in food service. This fit very well with the organisation's mission. They felt this was a win-win situation since a few of them had a bit of food service experience, and the rest they could learn 'on the job'.

### **Reality**

Since the Parks Department commissioned the contract it was they who decided when the café was to be opened. The grand opening event to showcase the newly renovated Park was scheduled for late September so they felt the café should be up and running for that weekend. In retrospect the decision to open a café in a park at the start of the Autumn/ Winter season may not have been a sound business move. Things were running well at first since the novelty of the new facility drew visitors and custom started to build. Once the weather turned more wintry business fell off quickly and the café struggled through the next few months.

The café is located in the building, which is in the centre of the park. Visibility from the street is non-existent and therefore eliminates possibility of attracting passing trade. It is also within a 1/2 mile radius of the highest concentration of takeaways in the city presenting high level

of competition. Marketing was not budgeted for and therefore efforts were more reliant on word of mouth, rather than a sustained campaign. The café struggled through its first winter and the following spring but custom never reached a level reasonable enough to overcome previous losses. A few new things were tried to increase business; outside catering and a local sandwich delivery service. Unfortunately these came too late in the day to have any positive effect. By this time staff, were on reduced hours and the café became reliant on volunteers and group members. The café remained closed on some days, which alienated customers and caused a further decline in turnover.

The management committee of group B found themselves further and further drawn in to keeping the café afloat, and less involved in the primary group. This was the exact opposite of what was initially envisaged. They found themselves in the position of fundraising not just for their main activities but also for working capital for the café, the very business that was intended to generate excess profits.

Finally after trying unsuccessfully to find working capital and unable to negotiate a part-time spring/ summer lease Group B had to give up the café. This caused disappointment among the group and all who had worked so hard to make the café a successful social enterprise. It also presents Local Authority with further rationale for not working with community organisations.

### **The Learning/ what could have been done differently**

- If Group B had more control over the contract they might have been able to negotiate a different start-up date, perhaps in the spring after the park grand opening.
- More direct input from a food service specialist might have led to better predictions of income and expenditure and cash flow.
- An investment of working capital up front would have enabled the group to grow custom steadily and ride out the slow periods.
- The business start-up phase is very stressful and brought undue pressure on the main community group activities. Working capital would have enabled the group to run this activity completely independently with a different management group, staff and company structure.
- Marketing was an afterthought rather than an integral part of business planning. Given the location of the café this was a critical error.
- Critical analysis from a properly trained and accredited Social Enterprise Business Advisor might have led Group B not to have undertaken this business opportunity at all.