

Can Social Enterprises Lead the Way for Regeneration and Poverty Reduction?

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This short paper is a summary of a presentation made by the two authors at a conference organised by the Scottish Trades Union Congress in September 2008 around the themes of *Regeneration and Poverty Reduction*. The paper focuses on issues facing Scotland as a whole, but Glasgow in particular, and was written in response to the publication of *Taking Forward the Government Economic Strategy* and *City Strategy Action Plan* by Glasgow City Council in 2008. The authors are particularly concerned that there is little mention of the issues of poverty reduction and regeneration within these documents. Furthermore, within this limited agenda social enterprises are seen as a way forward to tackle these issues but we argue that there are particular concerns regarding their use in pursuing these objectives. The paper is therefore organised on the following lines: firstly the issue and extent of poverty within Glasgow are explored with an analysis of how the City Council, as outlined in the two documents, seeks to tackle these problems. This critical examination is undertaken within an outline of previous policy initiatives. We then proceed to examine potential alternatives to the implicit strategies within the two documents, with an emphasis on social capital and social enterprises. However, whilst social enterprises are becoming one of the preferred vehicles for delivering regeneration objectives we argue there needs to be a full understanding of these organisations and potential problems surrounding their deployment.

The last three decades have seen rising income inequality in the UK with increased poverty amidst escalating prosperity for the few. The driving forces behind this move away from a welfare regime which promoted inclusion and equity can be traced to the lack of well-paid employment opportunities to replace those lost from traditional manufacturing industries, so that the old industrial regions, towns and cities have suffered most. Changing demands in the labour market have shifted jobs to the service sector, where posts are more likely to be temporary and low paid, and located in city cores and out-of-town malls. The continuing high levels of restructuring throughout the period since 1977 have favoured the creation of significant numbers of highly paid jobs in these centres, supported by massive expansions in minimum wage jobs. Geographically, this has produced areas of prosperity and areas of social isolation, which recreate the causes of poverty through generations and markets.

Despite the long-established recognition of these forces for change, their modes of operation and implications, the strategic approach to addressing increasing inequality and poverty has been based on fairly limited policy exercises. In particular, disadvantage has been tackled through measures based upon a supposed 'trickle down effect': expenditure by those who have benefited from economic change through consumption spending will create low paid employment in the private service sectors. Many of these jobs in the core cities of consumption, including Glasgow, are not sustainable, downturns in well paid jobs and the incomes of the rich are quickly transmitted to redundancies in retailing, hospitality and tourism. Having built a new Glasgow founded on this new economy, with

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its new image forged in festivals, cultural and arts events, the original contradictions of 'who is Glasgow for' continue.

The question of whether all benefit from these is coming clearer as the current recession deepens. Considering these previous initiatives, as with the proposals in the *City Strategy Action Plan*, we can see the 'Good Intentions' but there is multi-deprivation in households and neighbourhoods where poverty is endemic. Far too many neighbourhoods are populated by those on the margins or beyond employment and so neglected by a strategy where the emphasis for escape from poverty is on entering the paid labour market. As the market and system creates and recreates worklessness for a significant section of society, there is a continuing flow of new poor into these communities while any fortunate to secure and keep a job are up and off. Many of the new jobs are short-term and non-sustainable, as is now all too apparent. Without a commitment to wholesale investment in social housing and public services, piecemeal housing developments encourage a parallel outward mobility for the few.

Traditionally, at national level other policies would complement other strategic interventions. But since 1977, fiscal transfers have been forsaken in favour of tax cuts for the rich and employment incentives. So, the post-war Keynesianism of tax and spend used to compensate for inequality, and the use of nationalised industries to promote balanced growth across the country, have been ditched by successive Westminster governments. Local authorities and quangos, NDPBs (non-departmental public bodies) and executive agencies have controlled budgets and opportunities to address poverty and inequality while under the devolution settlement only local taxation and the 3% (Tartan Tax) rule can be utilised. Without the fiscal instruments for income and wealth redistribution at local and Scottish levels, cities and regions have pursued supply-side policies (training, advice and guidance) and property-based development plans as the ways to compete in the market for mobile consumer spending. These unilateral measures become the local way of providing potential jobs and income for the poor.

As above, these strategies recreate inequality and instability as they are based on unsustainable expenditure by higher income groups and tourists. Before looking at the role of social enterprises in such an environment, it is insightful to consider an alternative definition of 'the city' than the dominant 'cathedrals for consumption'. Fundamentally, a city is a place for people to live, work, enjoy, and look after - a community, or inter-related system of neighbourhoods. And, together these represent an embryonic local economic system, where people can produce, consume, save and invest in their local community. To maximise the potential of these local systems, there is a need to create and nurture local multipliers, limiting leakages of spending from the local economic system. This requires a holistic approach to social and economic development - very different from the piecemeal, property-led, consumerist expansion and recession of recent times.

It has been argued that the role of social capital is key to this alternative vision and strategy. Despite their multi-deprivation and poverty, deprived communities are still communities, offering the potential to create another way forward. People have an attachment to place that goes beyond consumption and location. Economic activity undoubtedly takes place in these communities: in terms of social, caring, housing, and other services. To an even greater extent than up to now, there is the opportunity for more of this to be undertaken, managed and controlled locally because of the conditions presented by the current recession, public sector constraints and restrictions of investment. As always, there are powerful arguments for developing existing resources, and in particular recognising people as a resource and not as a problem. In theoretical

terms, there is the possibility of building on existing social capital whilst bridging to new networks. Social enterprises could be a vehicle for this capacity building process.

Social enterprises have become more important in the last decade; however, to understand why this has become the case we need to examine the potential theoretical underpinnings for the promotion of 'third sector organisations'. This promotion needs to be observed against the back-drop of the liberalisation of markets which coincided with the 'rolling back of the state' which has been a policy objective in the United Kingdom for the last three decades. This has resulted in an extension of the commodification of an ever-greater array of goods and services, with social enterprises seen to have a part to play in this process. Additionally, social enterprises have been encouraged to play a greater role in regeneration projects alongside the social inclusion agenda. The argument here is that, at the local level with a 'triple bottom line' and a democratic and accountable governance structure, social enterprises can be involved in creating much needed 'social capital' in neighbourhoods where it was deemed that regeneration was a priority. In the words of the then Department of Trade and Industry.. "Empowering individuals and communities, encouraging the development of work habits and increasing employment diversity" (DTI 2002).

A further rationale is the correcting of market failures. For example, "Social enterprises create new goods and services and develop opportunities for markets where mainstream business cannot or will not go" (DTI 2002). Private businesses rely on the profit motive to provide the incentive to produce goods and services, where this is absent mainstream businesses will not produce. Traditionally this has been the rationale for state provision of certain goods and services. The political and economic philosophy of 'liberalisation', with the re-emergence of third sector organisations, led to a 'third way'. In other words, a more market orientated approach to resolve 'market failures' means "Paradoxically, then, we are looking at the system of regulated capitalism to solve a problem that it has generated" (Blackburn and Ram 2006).

Issues to think about

One of the ways that has been attempted to promote third sector organisations in the delivery of goods and services in a more competitive market system is through a bidding process for the 'right' to deliver goods and services. That is, it is a contestable market approach, bidding **for** the market rather than the promotion of competition **in** the market. Whilst this approach can provide the incentive required for individual organisations to bid for contracts there is the danger that it can lead to 'uncompetitive markets'. The winner of the contract can achieve a 'cost' advantage over potential competitors. This cost advantage arises through the ability of the winner being able to achieve economies of scale, which are denied to the organisations which have been unsuccessful. This can lead to oligopoly and/or monopoly providers of certain goods and services.

It could also be argued that promoting the model of the 'social enterprise' with a 'social entrepreneur' as the 'leader' of the organisation can create a conflict with other social aims and objectives. The entrepreneur is 'the gatekeeper' and in this role it is s/he who sets the agenda, decides the priorities, controls the resources, etc. that could be in conflict with, for example, a democratic and accountable governance structure. One of the motivations of 'the entrepreneur' is to "be one's own boss" (Hisrich 1986, Caird 1991). Furthermore this approach to promoting social enterprises can lead to:

- the breaking down of existing social capital
- the provision of opportunity for some meaning opportunities withheld from others

- sustainability concerns, with a danger this may become only considered in financial terms to the neglect of other aims of the organisation
- competition on costs alone, resulting in inadequate resources being secured
- size becoming important so that local social enterprises are squeezed out.

Taking each of these in turn. There becomes increasing pressure on social enterprises to bid for contracts in areas where they do not have the necessary experience or expertise. For example, a mental health charity could bid for a contract to provide shelter for the homeless. Previously, the mental health charity, and the homelessness charity, had a good working relationship. This relationship will be put under strain if the mental health charity won the contract, which could lead to a breakdown in the previous good working relationship - a breakdown in social capital.

With limited resources, which exist at any moment in time within any economy, the winning of a contract by one organisation, means that another organisation loses resources; the unintended consequence could be the promotion of inequality particularly if there is a spatial element to the delivery of the services. With an increasing emphasis being placed on market based activities it could be that other items of 'the bottom line' may be ignored so that the main priority becomes financial survival. If contracts are won on cost grounds alone this could lead to inadequate resources being secured which may lead to the social enterprise having to reduce its existing costs, such as wages and salaries, to survive. It was highlighted earlier that once a contract has been won the winner secures a cost advantage over its rivals, which can lead to a growth in the size of the winning organisation. This growth in size can lead to the securing of additional assets such as staff to write tender documents, resources which smaller social enterprises do not possess; therefore it becomes more difficult for small social enterprises to compete with larger ones.

In this brief paper we have noted the inadequacies of previous attempts to reduce poverty and inequality and argued that current attempts by Glasgow City Council in the future plans for the city won't overcome previous shortcomings. Third sector organisations, such as social enterprises, may be a way forward for the regeneration of some neighbourhoods but the potential problems of utilising social enterprises need to be taken on board if the latest panacea for deprived communities is not to become the latest to fail to deliver.

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