



# **The Collective Entrepreneur**

## **Social Enterprise and the Smart State**

**Professor Kevin Morgan and Adam Price**

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## **Biography**

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## Foreword by Ian Hargreaves

Much has been written about Wales and its place in the history of the co-operative and mutual movements. Some of that writing is scholarly and some of it sentimental. Often, the goal of the writer has been to advocate a revival of the spirit of Robert Owen. Too often, this has sounded like a fine tune receding in the memory.

The authors of this pamphlet argue that in the political journey of two decades from Margaret Thatcher's "no such thing as society" through New Labour's Third Sector to David Cameron's Big Society, something fundamental has changed. Events, from the global banking crisis to the pursuit of a credible response to global warming, have finally destroyed the case for a monoculture of shareholder-owned enterprises.

From this has flowed a revival of interest in mutuality in the financial sector, but also a flowering of many other manifestations of the power of collaboration: open-source software and the "crowd-sourcing" of solutions. Social enterprises are growing in every sector of the economy. New financial instruments are being devised to reward social rather than financial impact.

Adam Price and Kevin Morgan argue here that these circumstances present Wales with an exquisite moment of opportunity: to connect the values of the pioneers of joint endeavour with today's economic and social challenges. They recognize that for all the talk, Wales has been a weak player, compared with other parts of the UK, in nurturing social enterprise in recent years.

The vision they offer is compelling: a Wales in which new forms of social enterprise acquire the scale and skills needed to drive growth and jobs in Wales, as well as delivering in entrepreneurial, imaginative and cost-effective ways a new generation of public services in health, housing, education and social care.

To achieve this, the Welsh Assembly Government must evolve into a beacon of the "smart state"; Welsh Universities must become market leaders in conferring Masters Degrees in Social Business; there must be in Wales a "social square mile" with a social stock exchange. Publicly funded media enterprises should consider new social business models. So should some schools. These new social enterprises should collaborate with charities, with business and with government.

This is a perfectly timed big idea at an affordable price. The political response to it, the authors say, will be a litmus test for Wales' political culture. Can Wales "prove that these cultural values are assets for a viable future rather than a liability bequeathed us by the past?"

It is a potent question. The Charity Bank, the development bank for the third sector and an innovator in the creation of social capital markets, and Community Housing Cymru, the representative body for the largest community enterprise movement in Wales, are to be congratulated for helping to conjure up the right argument at exactly the right moment.



**Ian Hargreaves**

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Photograph courtesy of the Western Mail.

## Rhagair gan Ian Hargreaves

Ysgrifennwyd llawer am Gymru a'i lle yn hanes y mudiadau cydweithredol a chydfuddiannol. Mae peth o'r ysgrifennu hwnnw yn ysgolheigaidd a pheth ohono'n sentimental. Yn aml, nod yr awdur fu hyrwyddo adfywio ysbryd Robert Owen. Yn rhy aml, swniai hyn fel tŷ dda yn pylu yn y cof.

Dadl awduron y pamffled hwn yw i rywbeth sylfaenol newid ar daith wleidyddol y ddau ddegawd rhwng "dim y fath beth â chymdeithas" Margaret Thatcher drwy Drydydd Sector Llafur Newydd at Gymdeithas Fawr David Cameron. Mae digwyddiadau, o'r argyfwng bancio byd-eang i geisio ymateb credadwy i gynhesu byd-eang, o'r diwedd wedi dinistrio'r achos am fonoddiwylliant o fentrau cyfranddalwyr.

O hyn llifodd adfywiad diddordeb mewn cydfuddioldeb yn y sector ariannol, ond hefyd flodeuo llawer o'r arwyddion eraill o gydweithredu: meddalwedd ffynhonnell agored a "thyrfu-gyrchu" datrysiadau. Mae mentrau cymdeithasol yn tyfu ym mhob sector o'r economi. Caiff offerynnau ariannol newydd eu llunio i wobrwyo effaith cymdeithasol yn hytrach nag effaith ariannol.

Mae Adam Price a Kevin Morgan yn dadlau yma fod yr amgylchiadau hyn yn cyflwyno cyfle gwych i Gymru gysylltu gwerthoedd arloeswyr cydymdrech gyda heriau economaidd a chymdeithasol heddiw. Maent yn cydnabod er yr holl siarad, y bu Cymru'n wan wrth feithrin menter gymdeithasol mewn blynyddoedd diweddar o gymharu â rhannau eraill o'r Deyrnas Unedig.

Mae'r weledigaeth a gynigiant yn rymus: Cymru lle mae dulliau newydd o fenter gymdeithasol yn sicrhau'r raddfa a'r sgiliau sydd eu hangen i hybu twf a swyddi yng Nghymru, yn ogystal â darparu cenhedlaeth newydd o wasanaethau cyhoeddus mewn iechyd, tai, addysg a gofal cymdeithasol mewn ffyrdd entrepreneuriaidd, creadigol a chost-effeithiol.

I gyflawni hyn, mae'n rhaid i Lywodraeth Cynulliad Cymru esblygu i fod ar flaen y gad gyda'r "wladwriaeth graff"; mae'n rhaid i Brifysgolion Cymru arwain y farchnad mewn dyfarnu Graddau Meistr mewn Busnes Cymdeithasol, rhaid cael "milltir sgwâr gymdeithasol yng Nghymru" gyda chyfnewidfa stoc gymdeithasol. Dylai mentrau cyfryngau a ariannir yn gyhoeddus ystyried modelau busnes cymdeithasol newydd. Dylai rhai ysgolion wneud hynny hefyd. Dylai'r mentrau cymdeithasol newydd hyn gydweithio gydag elusennau, gyda busnes a gyda llywodraeth

Mae hwn yn syniad mawr ac mae'r amseriad yn berffaith a'r pris yn fforddiadwy. Bydd yr ymateb gwleidyddol iddo, medd yr awduron, yn brawf litmws o ddiwylliant gwleidyddol Cymru. A all Cymru "brofi bod y gwerthoedd diwylliannol hyn yn asedau ar gyfer dyfodol hyfyw yn hytrach na rhwymedigaeth a etifeddwyd o'r gorffennol?"

Mae'n gwestiwn grymus. Dylid llongyfarch y Banc Elusennau, banc datblygu'r trydydd sector ac arloeswr wrth greu marchnadoedd cyfalaf cymdeithasol, a Cartrefi Cymunedol, corff cynrychioladol y mudiad menter gymunedol fwyaf yng Nghymru, am helpu i ddefro'r ddadl gywir ar yr union adeg gywir.



**Ian Hargreaves**

Athro yr Economi Digidol

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Mawrth 2011

Llun diolch i'r Western Mail.

## **Executive Summary - In From The Margins**

*“If there be one closet doctrine more contrary to truth than another, it is the notion that individual interest, as that term is now understood, is a more advantageous principle on which to found the social system, for the benefit of all, than the principle of union and mutual co-operation”* (Robert Owen, Co-operator, 1771-1858).

The social enterprise sector has laboured under a Cinderella status for too long and it is high time that it received more serious attention from government to enable it to get the support that is lavished on the conventional business community. Although it has gained a measure of recognition in recent years – most notably perhaps when the Office of the Third Sector was created in the Cabinet Office in 2006 – the social enterprise sector continues to be seen as a poor relation by many commissioners and procurement managers, the people who collectively spent £236 billion last year buying goods and services for the public sector.

The values espoused by social enterprises have always been with us, most notably in the financial services sector, but once again they are resonating – in the corporate economy, in prosperous as well as in deprived communities and across all mainstream political parties in the UK – which suggests that the sector is now re-emerging from the shadows. One of the reasons why social enterprise values are travelling so far is because the twin crises, the Credit Crunch and the recession, exposed the shortcomings of conventional business models, especially amongst the banks and credit rating agencies which did so much to initiate the problems in the first place. These crises raised questions about the distribution of risk and return in capitalist society that remain to be answered.

One of the most compelling answers to the banking crisis came from Andrew Haldane, the financial stability director of the Bank of England, who argues that financial regulators need to think of banking in ecological terms, where banks are treated as dynamic parts of a banking ecosystem. The key conclusion to emerge from this analysis was the following: to reduce the risk of future crises, regulators ought to give much greater prominence to “systemic diversity” across the banking system as a whole because “homogeneity bred fragility” (Haldane and May, 2011).

In other words, the UK banking sector was dangerously over-dependent on a single business model – the large, shareholder-owned plc – and this model was treated as the “normal” way of doing business by regulators (Michie, 2010). As the Vickers Independent Commission on Banking has already conceded, the current structure of the UK financial system has had disastrous consequences:

*“One of the roles of financial institutions and markets is efficiently to manage risks. Their failure to do so and indeed to amplify rather than absorb shocks from the economy at large has been spectacular.” (Vickers, 2011)*

Promoting alternative business models in the banking sector is now deemed to be essential if we want to fashion a more resilient, more sustainable system, and one way to do this is through the creation of banking mutuals, which promotes “systemic diversity” as well as consumer choice.

Social enterprise values resonate for other reasons too, not least because all organisations, be they public, private or third sector, are increasingly obliged to account for their impact on economy, society and nature. The social enterprise sector helped to pioneer the practice of *social accounting*, which assesses these impacts, and to this extent it can be seen as a social innovation that is now being adopted in other sectors.

Government, too, has realised that it can accomplish so much more by working with and through dynamic social enterprises. Although this creates new dilemmas for the sector, because the sector will be compromised if it is simply an “arm of the state”, it also creates new opportunities for the sector to develop its own distinctive agenda. Social enterprise is rightly seen as “the hinterland of the public sector”, where social innovations can be trialled outside the risk-averse structures of the state, where future worlds can be explored in the here and now (Mulgan, 2007).

In the following report we explore these threats and opportunities in two specific contexts: the general and the particular. Chapter one explores general themes that are germane to the future growth of the sector, namely: (i) new models of collective enterprise; (ii) the real potential of the Big Society and (iii) the generic threats and opportunities facing the sector in the UK. In contrast, Chapter two examines the prospects for the social enterprise sector in the particular context of Wales, where the political culture is highly receptive to the growth of social enterprise, a fitting testament to Robert Owen who was born in Montgomeryshire. Chapter three calls for a smart state rather than a shrunken state and outlines an agenda to nurture the social enterprise sector in imaginative ways.

## Crynodeb Gweithredol – I Mewn o'r Ymylon

*“Os oes un athrawiaeth gudd sy'n fwy gwrthwynebus i'r gwir nag unrhyw un arall, y cysyniad hwnnw yw bod budd unigol, fel y deallir y term hwnnw hwnnw, yn egwyddor fwy manteisiol i sefydlu'r system gymdeithasol arni, er budd pawb, nag egwyddor undeb a chydweithredu er budd pawb”* (Robert Owen, Cydweithredwr, 1771-1858).

Mae'r sector menter gymdeithasol wedi llafnu dan statws Sinderela am rhy hir ac mae'n hen bryd ei iddo dderbyn sylw mwy difrifol gan y llywodraeth i'w alluogi i gael y gefnogaeth a lwythir ar y gymuned fusnes gonfensiynol. Er iddo gael rhywfaint o gydnabyddiaeth mewn blynyddoedd diweddar - yn fwyaf arbennig efallai pan sefydlwyd Swyddfa'r Trydydd Sector yn Swyddfa'r Cabinet yn 2006 - mae'r sector menter gymdeithasol yn parhau i gael ei ystyried yn berthynas tlawd gan lawer o gomisiynwyr a rheolwyr caffaeliad, y bobl a wariodd rhyngddynt £236 biliwn y llynedd yn prynu nwyddau a gwasanaethau ar gyfer y sector cyhoeddus.

Bu'r gwerthoedd a arddelir gan fentrau cymdeithasol gyda ni bob amser, yn fwyaf arbennig yn y sector gwasanaethau ariannol, ond maent unwaith eto'n taro tant - yn yr economi corfforaethol, mewn cymunedau llewyrchus yn ogystal â chymunedau amddifadus ac ar draws holl bleidiau gwleidyddol prif ffrwd y Deyrnas Unedig - sy'n awgrymu fod y sector yn ail-ymddangos o'r cysgodion. Un o'r rhesymau pam fod gwerthoedd menter gymdeithasol yn teithio mor bell yw oherwydd i'r ddau argyfwng, y wasgfa ar gredyd a'r dirwasgiad, ddangos diffygion y modelau busnes confensiynol, yn arbennig ymhlith y banciau a'r asiantaethau graddio credyd a wnaeth gymaint i sbarduno'r problemau yn y lle cyntaf. Cododd yr argyfyngau hyn gwestiynau am ddsbarthiad risg ac adeniliad mewn cymdeithas gyfalafol sy'n dal heb eu hateb.

Daeth un o'r atebion mwyaf grymus i'r argyfwng bancio gan Andrew Halane, cyfarwyddwr sefydlogrwydd ariannol Banc Lloegr, sy'n dadlau fod angen i reoleiddwyr ariannol feddwl am fancio mewn termau ecolegol, lle caiff banciau eu trin fel rhannau deinamig o ecosystem fancio. Y casgliad allweddol a ddaeth i'r amlwg o'r dadansoddiad hwn oedd y dilynol: er mwyn gostwng risg argyfyngau yn y dyfodol, dylai rheoleiddwyr roi llawer mwy o amlygrwydd i “amrywiaeth systemig” ar draws y system bancio yn ei chyfanrwydd oherwydd “bregusrwydd a fagwyd gan homogenedd” (Haldane a May, 2011).

Mewn geiriau eraill, roedd sector bancio'r Deyrnas Unedig yn beryglus o or-ddibynnol ar un model busnes - cwmni atebolrwydd cyhoeddus mawr, yn eiddo cyfranddalwyr - gyda rheoleiddwyr yn ystyried mai'r model yma oedd y ffordd 'arferol' o wneud busnes (Michie, 2010). Fel y cyfaddefodd Comisiwn Annibynnol Vickers ar Fancio eisoes, cafodd strwythur presennol system ariannol y Deyrnas Unedig ganlyniadau trychinebus:

*“One of the roles of financial institutions and markets is efficiently to manage risks. Their failure to do so and indeed to amplify rather than absorb shocks from the economy at large has been spectacular.” (Vickers, 2011)*

Credir yn awr ei bod yn hanfodol hyrwyddo modelau busnes amgen yn y sector preifat os ydym eisiau llunio system fwy gwydn, fwy cynaliadwy. Un ffordd o wneud hyn yw drwy greu banciau cydfuddiannol, sy'n hyrwyddo 'amrywiaeth systemig' yn ogystal â dewis defnyddwyr.

Mae gwerthoedd menter gymdeithasol yn taro tant am resymau eraill hefyd, nid yn lleiaf oherwydd bod gofyniad cynyddol ar bob sefydliad, boed yn y sector cyhoeddus, y sector preifat neu'r trydydd sector, i gyfrif am eu heffaith ar economi, cymdeithas a natur. Helpodd y sector menter gymdeithasol i arloesi'r ymarfer o *gyfrifeg gymdeithasol*, sy'n asesu'r effeithiau hyn ac i'r graddau hyn medrir ei weld fel arloesedd cymdeithasol a fabwysiedir bellach mewn sectorau eraill.

Mae Llywodraeth, hefyd, wedi sylweddoli y gall gyflawni cymaint mwy drwy weithio gyda a thrwy fentrau cymdeithasol deinamig. Er bod hyn yn creu problemau newydd i'r sector, oherwydd y caiff enw da'r sector ei beryglu os nad yw'n ddim mwy na “braich o'r llywodraeth”, mae hefyd yn creu cyfleoedd newydd i'r sector ddatblygu ei agenda neilltuol ei hunan. Mae'n iawn gweld menter gymdeithasol fel “cefnwlad y sector cyhoeddus”, lle medrir treialu arloeseddau cymdeithasol y tu allan i strwythurau osgoi-risg y wladwriaeth, lle medrir ymchwilio byddau'r dyfodol yn awr ac yn y fan hon (Mulgan, 2007).

Yn yr adroddiad dilynol ymchwiliwn y bygythiadau a'r cyfleoedd hyn mewn dau gyd-destun penodol: y cyffredinol a'r neilltuol. Mae'r bennod gyntaf yn ymchwilio themâu cyffredinol sy'n berthnasol i dwf y sector yn y dyfodol, sef (i) modelau newydd o fentrau torfol (ii) gwir botensial y Gymdeithas Fawr a (iii) y bygythiadau a'r cyfleoedd generig sy'n wynebu'r sector yn y Deyrnas Unedig. Mae'r ail bennod yn edrych ar y rhagolygon ar gyfer y sector menter gymdeithasol yng nghyd-destun neilltuol Cymru, lle mae'r diwylliant gwleidyddol yn barod iawn i dderbyn twf menter gymdeithasol, tysteb addas i Robert Owen, a anwyd yn Sir Drefaldwyn. Geilw'r drydedd bennod am wladwriaeth graff yn hytrach na gwladwriaeth grebachog ac mae'n amlinellu agenda i feithrin y sector menter gymdeithasol mewn ffyrdd creadigol.



### **Chapter Arts, Cardiff**

The arts and culture centre houses cinemas, performing art spaces and galleries, commissions and presents over 2,000 exhibitions, screenings and performances, and provides space for over 50 cultural businesses. The centre borrowed £650,000 from Charity Bank to assist with an extensive refurbishment of the venue.



### **Ten Green Bottles**

A social enterprise in Powys, it creates innovative ways of re-using waste glass, and helps those excluded from the workplace through work placements, volunteering and qualifications. It received funding totalling £40,000 from Charity Bank for new equipment and improving business skills. Lorraine Powers, Managing Director of Ten Green Bottles: “Charity Bank is different, and has given us the tools to become a sustainable business - it has helped us to fly and take our project to the next level. It has been an elegant and seamless process.”

## Chapter One

### Re-imagining Enterprise: The Collective Entrepreneur

Crises can be the spawning ground for new ideas, for “thinking the unthinkable”, as well as for reconsidering old ideas that were prematurely sidelined by history, the casualties of what E.P. Thompson, the English labour historian, called “the enormous condescension of posterity”. There is no better illustration of the creative role of crisis in British history than the creation of the welfare state; it is hard to imagine the birth of a fully-fledged welfare state – with a national health service, social insurance and a commitment to full employment at its core - without the devastation wrought by the Second World War.

More recently, the credit crunch, the greatest financial challenge since the 1930s, spawned a series of critical questions – about the nature and purpose of enterprise, the dominance of banks, deemed too big to fail, the rewards of bankers and the efficacy of regulation for example - that would have seemed unthinkable in the midst of the economic boom. Crises, in short, can have a cathartic effect, helping us to view and value things differently.

What is perhaps most astonishing about the credit crunch, and the subsequent recession, is not that hitherto unthinkable questions began to emerge, but how quickly these concerns are no longer the stuff of newspaper headlines; so much so that the mainstream political debate in the UK is no longer about the nature and purpose of enterprise or the fallibility of markets, but about cutting the government deficit and the reshaping of the central state - the two overriding political priorities of the Westminster coalition government.

The decision to cut the deficit in a *single* parliamentary term is probably the most momentous decision the coalition government will make. It is fiscally conservative and radical at the same time: fiscally conservative because it is predicated on a pre-Keynesian conception of the economy, when the “the paradox of thrift” was the problem (Wolf 2011); yet radical, too, because of its enormous social and economic consequences, many of which may fall on the most vulnerable sections of society, those who are most dependent on the public sector for employment, income and welfare.

This chapter explores these introductory ideas through the prism of three key themes:

**The nature and purpose of enterprise:** where we argue that the very idea of enterprise needs to be re-imagined – and re-claimed - because it is inaccurate to inevitably associate it with a neo-liberal analysis. Fashioning a new and progressive narrative of enterprise, we argue, is long overdue because the absence of a compelling enterprise narrative is arguably one of the

greatest failures of the centre-left over the past half century, certainly since the shortcomings of nationalisation were fully exposed in the 1960s. We believe that a more progressive narrative of enterprise can be discerned in the rise of the new social economy, where one of the keys to success is collaborative capacity within and between enterprises of all shapes and sizes.

**The role and capacity of the state:** where we argue that the conventional debate on the state in the UK, where it is framed almost entirely in terms of the size of the state, is superficial and redundant because what is needed above all else is a *smart state*. Neither the “small state” preference of the Conservatives nor the “big state” of which Labour is enamoured can adequately respond to the pressing problems of our time. Problems like climate change, burgeoning poverty, dignified elder care and obesity for example are what we might call “super wicked issues” because they defy conventional wisdom and require bold social innovation from state, economy and civil society. Social innovation, we argue, can be fostered in all three spheres by a smart state, but this demanding task is beyond the capacity of the state as we know it today, whatever its size.

**The scope and limits of social enterprise:** where we argue that the prospects for this sector have never been better – *if* it can address its own internal constraints (as regards skills, finance and scale) and *if* it can draw on the support of a smart state that is able and willing to address the external constraints, particularly procurement and finance.

### **Narratives of Enterprise: From Heroic to Collective Entrepreneur**

There is more than a grain of truth to the stereotype that centre-left thinking has been more concerned about the distribution of wealth than with its generation. Whatever its merits, such a one dimensional view is no longer tenable, not least because many of the public policy challenges of the future, such as a low carbon economy, will require new forms of enterprise and the latter cannot remain the preserve of conventional centre-right enterprise narratives. Let us briefly examine two very different enterprise narratives – which for the sake of simplicity we call the heroic entrepreneur and the collective entrepreneur.

#### **The Heroic Entrepreneur**

The *heroic entrepreneur* is very much part of the mainstream enterprise narrative beloved of neo-liberals because it is essentially a story of rugged individualism trumping adversity. Although it is closely associated with neo-liberalism, this narrative actually has a much longer intellectual pedigree and one of its strongest and most articulate expressions can be found in the early work of Joseph Schumpeter, the great Austrian economist, who is mainly remembered today for his evolutionary conception of innovation and capitalism as a highly dynamic system of creative destruction.

In his early work Schumpeter conceived the individual entrepreneur as a truly heroic figure, someone who was not to be confused with what he contemptuously called a “mere manager”, because the former was akin to a charismatic leader bent on breaking routines, uprooting conventions and capable of charting a radically new economic course. It is worth quoting this vision at length because the heroic entrepreneur has rarely if ever had a better ambassador than the young Schumpeter:

*“Here the success of everything depends on intuition, the capacity of seeing things in a way which afterwards proves to be true, even though it cannot be established at the moment, and of grasping the essential fact, discarding the unessential, even though one can give no account of the principles by which this is done... In the breast of one who wishes to do something new, the forces of habit rise up and bear witness against the embryonic project. A new and another kind of effort of will is therefore necessary in order to wrest, amidst the work and care of the daily round, scope and time for conceiving and working out the new combination... This mental freedom presupposes a great surplus force over the everyday demand and is something peculiar and by nature rare”* (Schumpeter, 1934).

If Schumpeter was the greatest exponent of the heroic entrepreneur, he was also one of the first to predict the demise of this charismatic figure, ruefully concluding that this “entrepreneur type must diminish” with the growing socialisation of the innovation process. Indeed, in his later work he went even further, arguing that innovation was being totally routinised because technological progress:

*“is increasingly becoming the business of teams of trained specialists who turn out what is required and make it work in predictable ways. The romance of earlier commercial adventure is rapidly wearing away, because so many things can be strictly calculated that had of old to be visualised in a flash of genius”* (Schumpeter, 1943).

Although Schumpeter was plainly wrong to suggest that innovation was being totally routinised, (just think of how many R&D projects still fail to deliver) he correctly discerned that teamwork was the key to successful enterprises. Like other ideas that have been prematurely sidelined by history, this deep insight was ignored for many years - by centre-right thinkers, who were wedded to the notion of the heroic entrepreneur, and by centre-left thinkers, who seemed more exercised with state control of enterprise rather than with developing new models of enterprise.<sup>1</sup> Far from dying out, as Schumpeter had expected, the heroic entrepreneur was actually given a new lease of life by the growth of neo-liberalism, which lionised individual entrepreneurs as the personification of free market forces. So much so that individual businessmen (and they were

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<sup>1</sup> There were of course notable exceptions to this bold generalisation, especially those associated with the cooperative and mutual movement (see Birchall, 1994; Parnell, 1999; Yeo, 1987).

invariably men) were deemed able to apply their private sector skills to solve the problems of the public sector, even though the latter was the sphere of service and citizenship not profit and competition.

Whatever the reality, the notion of the heroic entrepreneur played a very important ideological function because, perhaps above all else, it individuated the creation and distribution of wealth, fuelling the impression that *social* inequalities in wealth were largely due to *individual* differences in talent. Nowhere is this view more deeply embedded than in the financial sector, the source of the credit crunch crisis. Given the enormous economic significance of the sector, where a unique bonus culture is justified in terms of highly talented individuals, it is worth noting that even here, where the cult of the heroic entrepreneur is most pronounced, teamwork trumps individual performance.

One of the few studies to explore this issue seriously took as its subject matter the performance of Wall Street analysts and posed the question: is it the team or the individual that is the key to high performance? The study followed the careers of more than a thousand top analysts at 78 investment banks between 1988 and 1996 and it compared the “stars” performance with that of non-star analysts at other investment banks. For devotees of the heroic entrepreneur narrative, the results are chastening. Star equity analysts who switched employers paid a very high price for switching because, among other things, their performance plunged sharply and they continued to suffer for at least five years after moving to a new firm, proving that their talent was neither as portable nor as personal as they supposed. What these analysts left behind, the author concludes, were “the capabilities of the old firm and the practiced, seamless fit between their own skills and the resources of the company...an analyst who left a firm where he or she achieved stardom lost access to colleagues, team-mates and internal networks that can take years to develop...new and unfamiliar ways of doing things took the place of routines and procedures and systems that over time had become second nature” (Groysberg, 2010).

When it comes to explaining high performance then, teams appear to trump individuals even in sectors – like financial services – where the cult of the individual is most extreme.

### **The Collective Entrepreneur**

If we attach more significance to the *collective entrepreneur* it is not because we wish to devalue the role of individuals, but because we want enterprise and innovation to be recognised for what they really are, namely collective social endeavours. This point applies as much to newly founded enterprises, where a team of complementary talents helps to sustain the success of a new venture, as it does to long established enterprises, where the challenge is to keep the entrepreneurial ethos alive in the “iron cage” of organisational routines. Where the heroic entrepreneur celebrates the individual, the collective entrepreneur extols the group - it treats the

team as the hero in other words (Reich, 1987).

Forging a collaborative corporate community in which workers and managers at all levels generate and exchange information as freely and as collegially as possible is a goal to which all truly innovative firms aspire, especially in the knowledge economy where the accelerating pace of technological change creates a never ending stream of threats and opportunities. Collective entrepreneurship comes in many shapes and sizes, not just in the social economy, where we expect to find it, but also in the capitalist sector of the economy, where it is more common than we think. Indeed, in the capitalist sector, it is most apparent in knowledge-intensive activities, where enterprise and innovation meet at the frontiers of economic development. Here, in the most advanced capitalist enterprises in the world, we can begin to discern the growth of a new kind of community – one that is collaborative and open rather than traditionalist and closed. When firms become more knowledge-intensive, they find it increasingly necessary for their employees to “work things out” flexibly through discussion rather than relying either on arm’s length market exchange or bureaucratic hierarchy. Some of the leading organisational researchers in the US have concluded that this new collaborative community rests on a number of pillars, including:

- A shared ethic of inter-dependent contribution, fundamentally different from both traditional ethics of honour and loyalty, and from the modern individualist ethic;
- A formalised set of norms of inter-dependent process management, supplementing and often replacing the informal relations of traditional communities. This process includes iterative co-design and mutual understanding (Sabel, C in Heckscher and Adler, 2006).

One of the most difficult problems to be resolved in these collaborative communities concerns the changing nature of authority because, to be effective, they must accept the fact that authority is based not on one’s status in the hierarchy but on one’s knowledge in the network – which means that people must in many cases be accountable to peers or to those below them in the hierarchy, rather than to their formal superiors (Heckscher and Adler, 2006). In this protean world of the knowledge economy, innovation only becomes routine when the innovators themselves are “loosely coupled”, that is when they are “intimate enough to learn from nuance, but detached enough to break with convention and the habits of the group” (Sabel, 2006: 116).

Loosely coupled relationships help to ensure that these collaborative communities do not easily fall prey to “group-think”, which causes organisations to atrophy through the lack of vigorous debate.

The growth of the new social economy is another example of collective entrepreneurship,

and this is more commonly associated with the principles of cooperation and mutuality than the collaborative communities of the capitalist knowledge economy. The new social economy refers to:

*“all those areas of the economy which are not geared to private profitability. It includes the state but also a ‘civil economy’ of a philanthropic third sector, social enterprises and co-operatives operating in the market, and the many strands of the reciprocal household economy – households themselves, social networks, informal associations as well as social movements”.* (Murray, 2009:10)

One of the great merits of this capacious conception is the fact that it allows us to see beyond the fragments as it were, enabling us to take in the whole picture – and the whole picture in this case constitutes a very substantial part of economy, society and the state. The real significance of the new social economy has been obscured in the past by the fact that each fragment tends to act in and for itself, making it difficult to see the whole for the parts.

However, the implication of Murray’s analysis is that it is time to recognise the commonalities amidst the diversity of the new social economy. One of its common threads, for example, is a strong element of mutual support, part of a collective response to a whole series of intractable social and ecological problems which neither the state nor the market in their current forms are able to resolve. Murray believes that, to be effective, the new social economy will require new infrastructures, tools and means for distributing resources, new forms of organisation, and new ways of linking the formal and informal economies. This amounts, he argues, “to a far-reaching programme of social innovation on a scale not witnessed since the second half of the 19<sup>th</sup> century” (Murray, 2009: 22).

These two examples - collaborative communities at the forefront of the knowledge economy and the not-for-profit enterprises of the new social economy – cover the extreme ends of the spectrum of collective entrepreneurship, a term that clearly embraces much more than co-ops and mutuals. Because the collective entrepreneur refers to an enterprise narrative that extols the virtues of teamwork, collaboration and mutuality, we would be missing large swathes of this socialised activity if we confined it exclusively to the new social economy.

What primarily distinguishes the collaborative communities of the knowledge economy from the activities of the new social economy is not so much the nature of their work, but the *purpose* of their organisations – in the former it is to make a profit and meet the demands of shareholders, while in the latter it is to deliver a service, albeit the creation of surpluses secure financial sustainability. Far from being alien or marginal then cooperation and collaboration are to be found right at the heart of the most successful capitalist enterprises, a point that gets lost when we confine these social attributes to enterprises that explicitly embody them in

their constitutions. Indeed, as many authors have noted, co-operation and mutuality are not the exclusive preserve of co-operatives and mutuals (Parnell, 1999; Leadbeater and Christie, 1999).

Although the knowledge economy has witnessed disruptive changes in recent years, not least because of digitalisation and globalisation, the new social economy is now facing its own organisational revolution as the Coalition government addresses the role of the state, reorganises welfare and contemplates a transfer of responsibility for the provision of public services. What are the implications of this new strategy for economy and society?

### **From Big State to Big Society: Rhetoric and Reality**

A hardy perennial of British political debate for more than a century, the size of the state continues to be the ideological issue that more than any other distinguishes Left and Right. For many it is axiomatic that, aside from law and order functions and basic crisis management duties, the state should be as small and as inconspicuous as possible because this creates more space for private enterprise and civil society. While some strains of British Conservatism seem viscerally opposed to the state, others have perceived the state as a benign force, like the One Nation Tory tradition of Disraeli, Macmillan and Heath for example. David Cameron's Conservatism draws on both of these historical traditions in the formulation of the Big Society, the government's professed priority after reducing the deficit. However hollow its critics choose to label it, the Big Society narrative has made in-roads at the party political level.

The Big Society narrative has forced the Labour Party to assess itself because it lays claim to a lost tradition within the labour movement, a tradition that looked to neither the market nor the state for its inspiration, a tradition that sought to develop the organisational capacity of working class people through coops, mutuals, friendly societies and trades unions. This was the *associational* tradition of socialism that got prematurely sidelined by the state-centric tradition that eventually won over the Labour Party leadership (Yeo, 1987). Although it seemed the quickest way to effect radical change on a national scale - with the NCB and the NHS being two of its earliest achievements - the state-centric tradition eventually gave rise to a public sector that was neither democratic nor innovative, which is why the Left sought to remedy these defects by calling for a very different kind of state (Albo et al, 1993).

Where Prime Minister Thatcher sought to reshape the state in the cause of the market, David Cameron is doing so in the name of civil society, another reason why the Big Society narrative discombobulates its critics on the Left. Where Mrs Thatcher famously queried the very idea of society, David Cameron takes a radically different tack, saying the Big Society is "my great passion" (Cameron, 2010). Despite the clear differences between them, however, the actual outcome of their policies may be very similar because of the risk, in our view, of private companies

rather than civil society groups gaining most from shaping the state towards the Big Society.

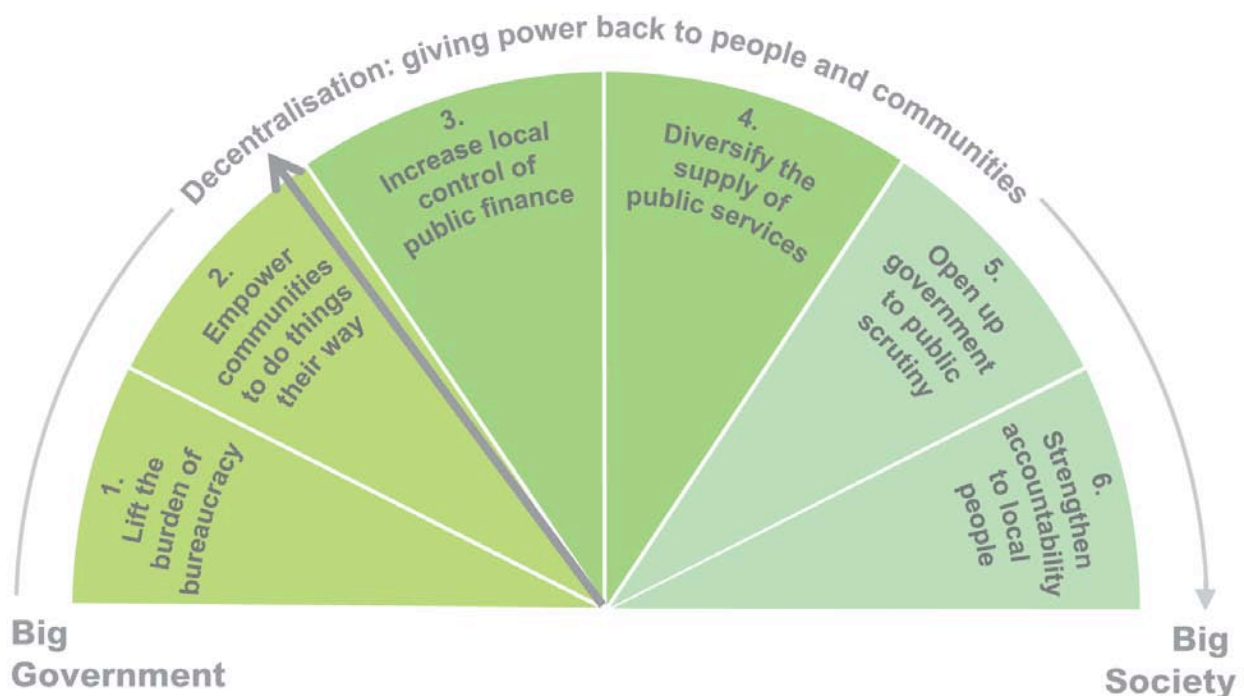
Privatisation seems at odds with the aims of the Big Society; at least that's the impression given by David Cameron's most elaborate speech on the subject – the Hugo Young Memorial Lecture in 2009. Nowhere in this well-designed speech do we find a single reference to the privatisation of public sector assets. And at no point is it suggested that private firms like Capita and Serco, which have prospered from the outsourcing of public services, are likely to be the principal beneficiaries when “the big society advances as big government retreats”.

The task of translating the Big Society into reality was entrusted to the Localism Bill, unveiled in December by Eric Pickles, the Secretary of State for Communities and Local Government. The Localism Bill, he said, was:

*“the centrepiece of what this Government is trying to do to fundamentally shake up the balance of power in this country. For too long, everything has been controlled from the centre - and look where it's got us. Central government has kept local government on a tight leash, strangling the life out of councils in the belief that bureaucrats know best. By getting out of the way and letting councils and communities run their own affairs, we can restore civic pride, democratic accountability and economic growth - and build a stronger, fairer Britain. It's the end of the era of big government: laying the foundations for the Big Society.”* (Pickles, 2010)

The key aims of the Localism Bill – shown in Figure 1 below – could easily appear, word for word, in the manifesto of a centre-left political party that was committed to a radical programme of democratic devolution.

**Figure 1: Key Aims of the Localism Bill (DCLG, 2010)**



However laudable in principle, the aims of the Localism Bill will be difficult if not impossible to achieve in practice for one simple reason – the overriding priority attached to reducing the deficit appears to be out of kilter with the development of the Big Society. In other words, the government's number one priority, deficit reduction, is jeopardising its number two priority, building the Big Society. Late last year the think tank New Philanthropy Capital estimated publicly provided charitable sector income would decline by between £3.2 million and £5.1 million, creating a gap too large to be filled by trusts, foundations, the public and philanthropists.<sup>2</sup>

As local authorities are facing some of the deepest cuts, with budgets set to fall by 27% over the four years to 2015, they cannot avoid passing on spending reductions to their third sector partners, provoking a tart response from several third sector leaders. Sir Stephen Bubb, the head of the Association of Chief Executives of Voluntary Organisations, said the government would “have a job on its hands to close the gap between its heady rhetoric and current reality”. While Sir Stuart Etherington, Chief Executive of the National Council of Voluntary Organisations, said he was now “very concerned about the tidal wave of cuts about to hit the sector” (J. Boxell, 2010b). The Big Society Bank, which was launched on 14 February 2011, is intended to compensate for reductions in public spending on social ventures. The intention is it will act as wholesale bank, funded by a combination of “dormant account money” and investment by the major banks. Its exact shape and terms of the Bank's contribution still remain to be decided.

Voluntary sector leaders were in the forefront of these declarations because the voluntary sector, despite appearances, is actually far more dependent on the public sector than is often realised. While private donations used to be its main source of income, far outweighing income from the public sector, the latter has grown in importance in recent years, so much so that it increased from £9.6 billion in 2003-4 to £12.8 billion in 2007-08, the latest period for which data is available, whereas private donations increased in the same period from £11.5 billion to £13.1 billion (NCVO, 2010). The public sector contribution comes in two very different forms, contract income worth £9.1 billion and grant income worth £3.7 billion, both of which are being reduced. Although charities, voluntary organisations and social enterprises work with some of the most deprived communities, this work may be hit hard because third sector bodies are vulnerable when council budgets have to be reduced quickly.

A point to consider is these savings may be more apparent than real because experience suggests the public purse will attract additional expenditure in the form of health, crime and welfare costs, all of which will appear under separate budgets in separate government departments, rendering the total cost of the package greater than the government may have estimated. In response some critics have concluded that, when one follows the money rather than the rhetoric, the Big Society is “a big fat lie” (Toynbee, 2010). Some local politicians would seem to concur. A blow to the Big Society idea came when Liverpool City Council - one of four

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<sup>2</sup> New Philanthropy Capital, *Preparing for cuts*, London, October, 2010

councils chosen to pilot the scheme and the venue for the prime minister's speech when he launched the pilot scheme - formally withdrew its support because of the impact of government policy. Joe Anderson, leader of Liverpool City Council, wrote to Mr Cameron to say that it was impossible to pursue the Big Society idea at the same time as having to absorb more than £100 million of cuts of cuts to grants for local community organisations. In the letter, he asked "How can the city council support the Big Society and its aim to help communities do more for themselves when we will have to cut the lifeline to hundreds of these vital and worthwhile groups?" Liverpool's decision to withdraw, he said, was a "direct consequence of your funding decisions" (Boxell, 2011).

In the light of this analysis, advocates of the Big Society may need to re-double their efforts to prove it is a genuine opportunity for third sector organisations to play a bigger role in the design and delivery of public services.

### **Threats and Opportunities for the Social Enterprise Sector**

Although it is not as dependent on state income as the voluntary sector, the social enterprise sector faces unprecedented threats and opportunities in the next few years. While the Big Society might open up new trading opportunities as the public sector retreats from direct service provision, public spending plans might also mean that public income dries up faster than public markets open up. The net effect of these challenges is impossible to predict with precision because too many imponderables are involved. Externally, the main imponderables are (i) whether new and more innovative forms of *finance* will be available to help the sector to scale up and (ii) whether *procurement* managers in the public sector will become less risk-averse about trading with social enterprises. Internally, the main imponderable is whether the sector can actually live up to its name - by enhancing its social *enterprise* management skills. As well as enhancing the skills of each enterprise, the sector as a whole needs to develop its collective capacity to form consortia to enable it to achieve things in concert that cannot be achieved by acting alone. In other words, the sector urgently needs "a mutual support structure within the social economy" (Pearce, 2003: 115).

These three issues – finance, procurement and skills – need to be addressed together because they are inextricably linked challenges. As regards finance, a recent survey of the sector found that nearly 40% of surveyed enterprises relied on local and central government for more than half of their income and it concluded by saying that finance was both "the greatest enabler when present and the greatest barrier by far when unavailable" (SEC, 2009: 32).

Financial viability is the bedrock of a sustainable social enterprise and this means having a mix of revenue streams, like earned income, loans, grants and charitable donations for example (Hayday, 2011). Many social enterprises are overly dependent on grant income and, since

much of this is at risk as public sector reductions begin to bite, they will have to learn to use loan finance if they want to survive, which is easier for some types of social enterprise. For example, loan finance can be a sound option for social enterprises that have a “clear future income stream” (Murray et al, 2010:78). *Community Development Finance Institutions* were expressly set up to channel loan finance into the sector in an appropriate fashion, that is to say by ensuring that the right loan repayment terms are in place.

The *Social Impact Bond* is another new and innovative way of financing social enterprise. In this case the government pays for the measurable outcomes of social projects and this income can be used for mobilising bond finance from other investors, be they public, private or third sector bodies. The rationale here is simple but compelling: if the social project works it reduces the cost on the public purse and investors receive a proportion of the cost savings (Social Investment Task Force, 2010).

The first Social Impact Bond in the UK was launched in 2010 to fund the St Giles Trust, a third sector organisation with a record of reducing reoffending by up to 40%. If it fails to reduce reoffending it gets nothing. If the reoffending rate falls by 7.5%, it starts to get a return. Social Finance, which raised the £5m bond, has calculated that a 20% drop in reoffending could allow 4 prisons to be closed in five years. A number of issuers have plans to raise further bonds to tackle, for example, disability, chronic health conditions, troubled families and a host of other preventable programmes. If the reoffending experiment works, Social Finance believes “there is the potential for hundreds of millions of pounds, even billions, of investment for social change through these sorts of structures” (Timmins, 2010).

Another source of social enterprise finance is the *Community Asset Transfer* scheme, which involves transferring “the ownership or management of a building or piece of land from a public sector body to a third sector organisation” (Quirk, 2007:36). Although community empowerment is the ultimate goal of the scheme, Community Asset Transfers can provide the initial collateral for further borrowing, creating a platform for financial sustainability. On the other hand, an asset can quickly become a liability if the skills and resources are not available to maintain it, proving that asset transfer is not without risks to the community (Aiken et al, 2008).

Public procurement can also boost the prospects for the social enterprise sector, but it can only do so if public sector managers learn to become more creative about the way they design and manage the way they purchase goods and services. Public procurement – the power of purchase – is an awesome power if it can be deployed properly because, in 2009-10, it amounted to £236 billion across the whole public sector. In practice, however, this power is an untapped power because of three factors in particular: (i) public sector managers are mired in a management culture, where the penalties outweigh the rewards if innovation goes wrong; (ii) the purchasing metrics are such that low cost is often allowed to masquerade as best value;

and (iii) the governance structure for procurement is so fragmented, with as many as 44,000 public bodies involved, making it difficult for good practice to diffuse from leaders to laggards, with the result that good practice has been found to be a “bad traveller” (Morgan and Sonnino, 2010).

Although collaborative procurement is now spreading across the public sector, the financial crisis means that the social and environmental goals that were written into public contracts are in danger of being jettisoned as austerity threatens to trump sustainability (Morgan, 2011). The social enterprise sector could help to keep these social and environmental goals alive because, by pioneering the practice of *social accounting*, a practice that ought to be mandatory for public, private and third sectors alike, all organisations “should be expected to account for the impact they have on people and planet, for the benefits they provide and for the damage they inflict” (Pearce, 2003: 152).

If public sector commissioners and procurement managers need to treat social enterprises more seriously, the social enterprise sector itself needs to prove that it can act in concert, by forming consortia for example, when it needs to bid for large public contracts. The sector needs to be big enough to bid and small enough to deliver – that is to say, big enough to mount a credible bid for a large contract and, once secured, that contract can be divided among the social enterprise members, who can then deliver it in their own communities, where they have an unrivalled local knowledge.

3SC is an excellent example of what we have in mind here. It was created in 2009 by ten funders, all social enterprises, to support third sector organisations to bid for large contracts. It is structured as a prime contractor that bids to manage contracts on a national or regional basis and it delivers them through a network of member organisations. It made its breakthrough in 2009 by winning a £21m contract from the Department of Work and Pensions to create work placements, primarily for long-term unemployed 18-24 year olds, a bid which involved 250 third sector organisations. 3SC helps to overcome the problem of scale in the sector: it recognises that third sector organisations have the local knowledge and the local skills to deliver employment and welfare services in their local communities, but what they don't have is the opportunity to secure large contracts, the missing ingredient that 3SC supplies. Dee Taylor, communications manager at 3SC, said “we offer a new model to commissioners, enabling smaller charities to be part of the new commissioning environment” (Dudman, 2010).

The example of 3SC highlights the importance of collective action to solve individual problems, a successful example of collective entrepreneurship in practice. It also underlines a more general point about network or associational forms of action – that the real problem is not being small, but being lonely. Small scale, in other words, need not be an impediment to success if one can act in concert when the need arises, which means being big *and* small at the same time.

Tapping new sources of social finance and acting in concert with fellow social enterprises suggests that new skills sets are emerging and these need to be diffused throughout the sector, so that eventually good practice becomes the norm and not the exception. The Social Enterprise Coalition (SEC) has spearheaded a number of new partnerships to provide leadership training skills and scaling up models to boost the prospects for the sector. But the SEC cannot be expected to redress the social enterprise skills shortage on its own. More concerted action is required from central government, from the devolved governments in Scotland, Wales and Northern Ireland, from local government and not least from the university sector, all of which should be mandated to help to upskill the sector. One of the encouraging effects of the credit crunch is the fact that many students, even MBA students, are considering careers in the not-for-profit sector (Knight, 2010). The skill needs of the sector could be redressed in part by drawing on the burgeoning pool of unemployed young people, many of whom are graduates with skills to offer, who need volunteering as well as paid work opportunities.

If the challenges of finance, procurement and skills can be addressed, the prospects for the social enterprise sector are better than at any time in the past. Although we have focused on practical issues in this section, we should never forget that social enterprise has a political purpose, namely “changing the way society is run” (Pearce, 2003:153). Dynamic social enterprises are also part of “the hinterland of the public sector – territory at one remove from the formal structures of accountability and control, where risks and imagination are easier, and where the future is most likely to take shape” (Mulgan, 2007:10).

Through its pioneering work in sectors that loom large in human development – sectors like social housing, food, energy, finance and dignified elder care for example - social enterprise is helping to deliver the future today, a future where *getting ahead together* is both the means and the end.



### Valeplus

With a mission to help people with learning difficulties develop through educational training and recreational activities, the charity based in Barry, Vale of Glamorgan, borrowed £90,000 from Charity Bank to purchase the building it was renting, giving it a permanent base and equity to help secure its future.



### Tyddyn Mon

Tyddyn Mon provides training, employment and supported housing for adults with learning difficulties, who grow food on a local farm. They wanted to start a textile recycling project, involving local schools. Charity Bank lent £20,000 to buy 20 clothing banks and 56 textile wheelie bins and the charity now runs all textile recycling services for the local authority.

## Chapter Two

### Wales: The Social Network Nation?

Wales, with its deep-rooted narrative of communitarian values, is a society where the notion of collective enterprise presented in Chapter one might be expected to thrive. If the scale of the social enterprise sector is a useful metric this may be more than some convenient form of national narcissism. The Welsh Assembly Government's own recent mapping exercise found Wales responsible for 8% of the total turnover of social enterprise in the UK, well above our share of population and more than twice our share of UK Gross Value Added.<sup>3</sup> Caution needs to be exercised here: a recent Third Sector Research Centre working paper pointed to the questionable basis of much of the data on social enterprise in the UK (Buckingham et al, 2010). Other surveys paint a less rosy picture of the state of Welsh social enterprise. As Buckingham et al point out Wales had a lower incidence of social enterprises, as compared to business in general, according to a 2004 survey for the Small Business Service, and its share of Community Interest Companies – according to the CIC Regulator – at 3% is significantly less than Wales' 5% UK population share. What is undoubtedly true is that the sector in Wales does boast impressive institutional and intellectual foundations: from the Wales Co-operative Centre – the largest co-operative development body anywhere in the UK – established at the height of the last economic crisis more than 25 years ago; to the Wales Council for Voluntary Action founded in 1934 to represent the voluntary sector; Co-operatives and Mutuals Wales, the Welsh arm of Co-operatives UK; the Welsh Social Enterprise Coalition recently established as a new umbrella body; Social Firms Wales which focuses on the work integration of people with disabilities; Cylch, the widely admired Community Recycling Network; the Development Trusts Association Wales, leading experts on community asset transfer; the Cardiff Institute for Co-operative Studies; and Community Housing Cymru, one of the sponsors of this report, to name but a few of the key organisations.

The fact that Wales can draw upon such a rich institutional ecology is testament to its historically high reserves of social capital. Wales does undoubtedly represent fertile ground for social approaches to economic activity, quite literally in one sense: it is at least symbolically significant that four times as much of the land mass of Wales – 12% in total – is common land compared to England. That even the rugged individualist par excellence of the Welsh hill farmer evolved patterns of co-operation – the *cymortha* tradition of shared harvesting for example – demonstrates the breadth and depth of Welsh co-operative values, more prominently associated with the self-organising traditions of the industrial valleys of the south, but just as relevant in rural society. These traditions are resources of hope to draw upon, but we must be

<sup>3</sup> *Mapping Social Enterprise Activity in Wales – Understanding in Order to Influence*, Sector Projects, Geoeconomics and The Research Unit, Welsh Assembly Government, October 2009

careful not to misuse “usable myths” to make claims about the current extent of our collective enterprise which are simply – not yet – borne out by reality.

Wales may be the land of Robert Owen, and Plaid Cymru’s own apostle of co-operation, D.J. Davies, but the history of real existing Welsh co-operation is one of isolated and sporadic success: the famed Quaker-initiated Brynmawr experiments in the 1930s – with social enterprises in furniture and boots – didn’t survive long into the post-war period (Gulbenkian Foundation, 1981). Tower Colliery was and remains an emotionally compelling story, but its very uniqueness militates against its usefulness as a scalable model for others. An earlier attempt to turn Cwmllynfell colliery in the 1950s into a workers’ co-operative, was still-born.

The longest running indigenous co-operatives (the local co-operative retail societies having been long ago integrated into the Co-operative Group) are in fact the Welsh Agricultural Societies, established largely due the dogged determination of a social entrepreneur – Augustus Brickstocke of Blaenpant, Carmarthenshire – a forgotten hero of co-operation almost bankrupted by his efforts and known as the Plunkett of Wales, after Joseph Plunkett, whose Irish agricultural co-operatives and credit banks served as inspiration for Welsh equivalents after Brigstocke organised a study visit in 1902 (Jones Davies, 1942). Crucially Government – in the form of a Development Commission – lent its support, and Brigstocke generously endowed a scholarship in agricultural co-operation at University College Aberystwyth, which organised events on the theme. Welsh agricultural co-operation, which continues to develop through successful marketing co-operatives like Welsh Lamb and Beef, and dozens of smaller producer co-operatives, didn’t emerge spontaneously out of Welsh co-operative values or traditions but was the result of a conscious effort that involved a combination of social entrepreneurship, education and Government support.

In industrial Wales the Miners’ Institutes that have survived stand as monuments to the power and resourcefulness of people working together. Those that haven’t are a useful reminder that traditions that don’t adapt to changing realities are condemned to die. If we are to live up to our reputation and to our potential as a nation of collective entrepreneurs, if “hope and history will rhyme”, we will need a concerted effort in which everyone: entrepreneurs, communities, institutions and Government, will all have a part to play.

As Nic Bliss, editor of the report of the Commission on Cooperative and Mutual Housing argued:

*“What we’re basically saying is that to make a co-operative and mutual structure operational....you need the grassroots element to be happening at one end of the spectrum but at the other end of the spectrum you need political, with a small p, support,you need infrastructure that is going to make it happen.”<sup>4</sup>*

4 quoted in Woodkin (2010).

In other words the continued development of the social enterprise sector in Wales will not happen in a strategic vacuum. In the next three sections we examine the key challenges to be faced in sustaining the growth of the sector: the creative role of procurement, scaling and skilling up social businesses, and the need for new socially-anchored financial instruments and institutions.

### **Social Procurement: Government as catalyst and customer**

As set out in Chapter one, if we are serious as a society about expanding the social business sector we have to start with the biggest single customer of all: Government. Social businesses face all the familiar barriers that small businesses in the private sector have to deal with in winning public contracts: a dearth of information and contacts, a perception problem of seeming higher-risk, absence of trading-record, contracts being too large-scale, and a procurement process which emphasises cost-reduction over most other considerations. To counteract this disadvantage public authorities have been encouraged to utilise the discretion afforded them under EU procurement rules to use “community benefit” clauses in contracts in order to give social enterprises a hook with which to win public contracts. This is relatively uncontroversial: here we are dealing, by and large, with goods and services that are already being procured from the private sector, so this strategy for enlarging the social business sector enjoys wide cross-party support in Wales. The Labour-Plaid Cymru government, for example, has encouraged local authorities, the NHS and Registered Social Landlords to do more to help social businesses win a larger share of public procurement.

But how successful is this strategy in practice? Answering that question with certainty is currently impossible as the Welsh Assembly procurement arm, Value Wales, does not collect detailed figures on social businesses’ market share of public contracts. The authors of the Welsh Assembly Government’s mapping study of the sector estimated, based on its responses, that social businesses accounted for a little over 8% of all Government procurement in Wales, equal to about £350 million a year based on a total spend on external goods and services of £4.3 billion.

A first step would be gathering detailed information on a regular basis on the sector’s market share in government spending along the lines used to measure success in promoting local procurement. Effort in this area has been an unalloyed success, with the market share of Welsh firms rising from 35% to 49% according to Value Wales in just three years (Lawrence, 2008). Setting a similar target to increase the proportion of social business in public procurement to, say, 20% by 2020 should be achievable.

Achieving this ambitious figure will not be easy. Tightening budgets are leading public authorities to prioritise cost and, actively encouraged by the Welsh Assembly Government, to create joint

purchasing arrangements, the practical effect of which is to create larger contracts, which can be beyond the capacity of individual social businesses. The lack of capacity within Welsh public purchasing – with just 130 managers holding a Chartered Institute of Purchasing and Supply, a deficit of more than 55% by current estimates - may also militate against a more nuanced and time-consuming approach (Morgan, 2010). This performance needs a coordinated policy response. The Welsh Assembly Government cannot simply hope that local authorities will include ‘community benefit’ clauses in contracts. It has to create financial incentives for them to do so: a reward of 1%, say, for organisations that include community benefits in over 50% of the total value of its purchasing. Making use of the excellent Can Do toolkit, developed by the Chartered Institute of Housing to promote social clauses in public sector contracts, a mandatory part of the bidding process, as the Welsh Assembly Government did with the Arbed programme, would also drive up levels of social procurement.

Another specific change in procurement policy could have important symbolic value as well as saving millions of pounds at a time of severe strain on the public finances. The open source software movement that has evolved via a collaborative development effort to deliver the Linux operating system, the Mozilla search engine and the Apache web server is one of the most impressive achievements of collective enterprise during the last twenty years. Powys County Council and the Countryside Council for Wales have been early adopters of this exciting social and technological innovation. With WAG support, Wales could become the world’s first open source nation by transferring all major public sector contracts over to open source providers, in the process saving an estimated £30 million per annum in IT procurement costs.

But, even with a greater receptiveness on the buyer side to social business involvement, this will not be enough to deliver the growth required. The Mapping Study showed that the primary problem perceived by the sector – mentioned by over a third of all respondents – was the lack of capacity within the sector itself. A key step here will be the development of an All-Wales Social Procurement Consortium that is capable of competing with private sector competitors in public procurement like the service conglomerate SERCO.

Increasing social business’ current share of the government procurement cake is only one side of the story: the debate, driven by political developments in England, has focused much more of late on transferring responsibility for more and more public services traditionally delivered by the mainstream public sector to social enterprises. Putting aside the definitional issue as to whether Foundation Trusts constitute social businesses – in our view they currently would not as they lack fundamental independence from the public sector – the English Health Secretary has signalled a huge march towards shifting whole areas of healthcare provision into the social business sector. Similar Big Society moves have been mooted in education, with the prospects of so-called free schools run by co-operatives of teachers and/or parents. While the Westminster Government has nailed the social enterprise banner to their ideological mast, the

ideas and the practice of carving out a bigger role for social business in public service delivery date from the heyday of the last Labour administration. A social enterprise unit has existed in the English NHS since 2003; and some twenty new employee-owned health co-operatives were created in the last year of the Labour Government, several months before the idea of public sector employee co-operatives became official Conservative policy. Academy and co-operative schools also pre-date the Coalition government.

The greater contrast is not between the new mutualism wave under New Labour and the Big Society advocates under David Cameron: Demos and ResPublica, two intellectual drivers, are hardly far apart – and the Young Foundation has worked with them both. It is the gulf in the language between Cardiff and London that has emerged during this period that has been most marked – though policy-makers in Wales might respond, fairly to some extent as already noted, to the divide in the London government's Big Society language and the reality – as the reluctance to commit itself to re-mutualising Northern Rock, and the scrapping of the Community-Owned Pubs programme demonstrates.

The greatest example to date of the social-market-making capacities of Government is housing, where Mrs Thatcher's government progressively replaced Council-owned properties with Registered Social Landlords, whether housing associations or housing co-operatives. This trend continued under Labour through the process of stock transfer. There has been considerable political resistance to this trend in Wales: the creation of the Community Housing Mutual was a specific Welsh response to legitimate concerns over the accountability of the new post-transfer housing providers. But even in Wales community housing bodies have grown to become major players and together with Glas Cymru and the Principality represent the commanding heights of the Welsh social economy. Realising their importance, housing associations have themselves taken steps to increase their own procurement from social enterprises, and establish their own social enterprises like Moneyline Cymru which has offered 3000 families an alternative to door-step lenders. The sector has also been a pivotal player in combating fuel poverty through its work on the Arbed programme, whose heart-and-home-warming work retrofitting 8000 homes deserves to be repeated through an Arbed 2. The impetus for this new social innovation has been the added flexibility – free from excessively rigid audit and scrutiny procedures – the sector has enjoyed following the Essex Review, a right to innovate which should surely continue.

Social enterprise – combining as it does the entrepreneurialism of the private sector with the accountability and public service ethos of the public sector – undoubtedly has the potential to drive up quality and effectiveness in public services. A key decision for the next Assembly Government will be whether it will continue the social market-making experiment in housing into the core areas of public service delivery, education and health, moving in the direction of collaborative governance, with the public sector working with a massively expanded social

business sphere to co-produce public value. In other words will the Welsh state become a 'smart state' in our terms? A preliminary first step would be to create a new work strand for the Assembly Government's Efficiency and Innovation Board tasked with developing a new breed of public-service social enterprise.

The model of co-operative trust schools involving teachers, parents and the local community could be promoted in Wales as an alternative to current local authority provision. The still thorny problem of adequate Welsh medium provision – as most recently demonstrated by the saga of Ysgol Treganna in Cardiff – could be addressed by giving parents the tools to turn their right to Welsh-medium education enshrined in the One Wales agreement, into a reality through their own initiative. The issue of school reorganisation in rural areas could also gain a new dimension if co-operative provision involving a stronger and structured level of parent and community involvement was included as an option.

Social care is another area where there are major opportunities for the expansion of the social business sector – not as a precursor to privatisation but as a bulwark against it. There are already plenty of examples of social businesses working in this field: worker co-operatives in domiciliary care, housing associations providing residential care, as well as charities and friendly societies. The advantage of the social business sector is its greater capacity to involve service users when compared to either private or public sectors. It can also be more efficient (and better at income generation) than the public sector while the clear distinction with the private sector is that these financial gains are recycled for public purposes not private profit at the expense of the quality of care. At a national level the Welsh Assembly Government could make it a clear objective of policy to make the social enterprise sector the biggest provider of social care within a generation. Working with Housing Associations to create the sheltered housing necessary to shrink the £30 million still wasted within the NHS through bed-blocking annually would also seem an attractive public investment.

By far the most controversial area for policy makers is healthcare. Social business is already a part of this sector: through the hospice movement and the children's hospital Ty Hafan; the work of mental health charities in providing support to mental health service users; similar work in the area of substance-abuse by organisations like Rhosserchan; and the air ambulance service supported exclusively through voluntary contributions. Overall, however, the idea of direct public sector provision has become something of an article of faith since the foundation of the NHS. Ironically, the oft-quoted model for the National Health Service was itself a voluntary health insurance scheme that continued to provide additional health care to its members until the 1990s. While BUPA can hardly be described as a social enterprise – it would be akin to calling the pre-flotation Goldman Sachs a workers' co-operative - the Welsh independent healthcare providers, WHA and the Gwent Hospitals Contributory Fund, are closer to healthcare friendly societies like Benenden that recently joined Co-operatives UK and Medicash, used by health

union Unison for its own members health insurance, so efforts should be made to bring them into the social enterprise fold.

There is, in our view, considerable scope to expand the role of the social business sector in the provision of Welsh healthcare services. At the basic level, Welsh healthcare workers should be given the right, as in England, to form employee-owned co-operatives or community mutuals where they can demonstrate community benefit. At a more radical level, thought should be given to the means by which social business may be able to assist with the process of NHS reconfiguration – a must-do in the next twenty years if the National Health Service is to survive - with acute and specialist services provided in regional centres by the central NHS and primary services being managed progressively by the social enterprise sector, whether local GP co-operatives, community-owned hospitals, charitable organisations or genuinely mutual healthcare providers.

Social business could also be the solution to governance issues within public service broadcasting. Senior Labour politicians have suggested that the BBC Trust should become a mutual with license payers able to elect members to its Board. At the same time the accountability crisis at S4C has prompted renewed calls for the devolution of its supervision to the National Assembly. The fact that the channel is currently overseen by politicians in London who do not watch it, and could not understand it if they did, is for many the root cause of the current collapse in confidence in the broadcaster as well as the more long-term erosion in its viewing figures.

Gerry Holtham has suggested a mutual solution could strengthen accountability while continuing to provide independent funding (Barry, 2010). The new mutual could operate along the lines of the Canadian regional broadcaster Knowledge, where 26,000 household partners make additional voluntary contributions in addition to its core funding. This extra cash, together with core funding for S4C and the Books Council, could help realise the dream of a Welsh language daily newspaper in printed form as originally envisaged by proponents of the social enterprise *Y Byd*. The Chair of the Authority would be elected by the membership, rather than appointed by an English Secretary of State – which from the point of view of basic accountability would surely be an improvement.

Other statutory bodies could also be candidates for mutualisation, as the experience of British Waterways teaches us. The historic site management responsibilities of CADW could be merged with the National Trust in Wales to form a new distinctive Welsh historic buildings and monuments entity – part-funded by government, partly by member contributions and through commercial revenue. Social businesses, imbued with all the passion a mission-driven, member-driven organisation can muster, are well-placed to deliver broader public goods like conservation. If anyone doubts this, look at the renaissance of Central Park in New York,

rescued from terminal decline at the hands of the City Council by a determined group of civic entrepreneurs who formed the Central Park Conservancy that has been running and renewing the Park under a management agreement with the City since 1980.

### **Scaling Up, Skilling Up: a strategy for success**

The Welsh Social Enterprise Coalition has bravely challenged some cherished beliefs within parts of the social enterprise movement:

*“Social profit is not bad, wealth is not bad, Being big is not bad, Unethical trading, pointless waste and missed opportunity for change: these are things that are most definitely bad”.<sup>5</sup>*

As a body its declared objective is one of turning social enterprise into a “large-scale economic model”:

*“If the social enterprise movement has realistic aspirations to displace some traditional profit distributing formats it needs to embrace a range of business models that will enable some social enterprises to take over some private sector jobs and allow others to be active internationally on a significant and sustainable scale...the movement must create large social enterprises – household names in their own right who are capable of taking on the major listed companies in their own markets.”<sup>6</sup>*

DTA Wales, despite its roots in community economic development, has also said there is a need to “think big” where appropriate and that the description “not-for-profit” is unhelpful.<sup>7</sup>

The growth record of the industry in Wales so far is disappointing. The RBS Social Enterprise 100 which tracks growth among UK social enterprises shows that growth is slowest in Wales. Despite Wales “co-operative advantage” it would appear we once again find ourselves at the bottom of the growth league even when measured by the social yard-stick. As a catalyst for sector growth – on the premise that if something isn’t measured it’s seldom delivered – the Welsh Assembly Government should set a target for an increase in market share of the sector as a whole and also by the middle of the decade for three Welsh businesses to be in the top ten of the SE100. Over the next twenty years we should aim to create three new beacon firms: another Glas, a financial mutual to rival the Principality and a mini Welsh Mondragon/John Lewis – a £20m plus turnover co-operative. In this respect the launch of the Social Business Trust represents one of the most interesting recent innovations in support of social enterprises and their plans to scale up and establish themselves as significant brands. The

<sup>5</sup> Welsh Social Enterprise Coalition, Written Evidence, National Assembly for Wales Enterprise and Learning Committee Inquiry: *The role of social enterprises in the Welsh economy*: July 15, 2010

<sup>6</sup> *ibid*

<sup>7</sup> *ibid*, DTA Wales Written Evidence, 8 July, 2010.

founding partners, including some of the world's most prestigious business organisations, will be offering a combination of cash and advisory services for up to twenty enterprises across the UK. We sincerely hope that some Welsh social enterprises demonstrate their ability and ambition to qualify for the programme.

One thing is certain: Glas Cymru would not exist if it had not been for the vision and determination of Nigel Annett, Chris Jones and their colleagues. Creating the next generation of social enterprises means creating the next generation of social entrepreneurs. Sir Ronald Cohen, the founder of the private equity firm APAX, has said if he were leaving Harvard Business School today he would be forming a social enterprise: and, as alluded earlier, about 20% of HBS graduates are indeed taking his advice.<sup>8</sup> But if Wales is to catch the wave of social innovation it cannot rely on a few socially enlightened products of the world's best business schools to locate themselves here. We have to become our own centre of excellence in this new paradigm. Wales could create the world's first avowedly Social Business School, endowed philanthropically, with a new Master of Social Business Administration qualification at its heart. Using an Extension School model, it would work to raise general business and management skills within existing social enterprises which, as already noted, represent one of the biggest barriers to the development of the sector. The Social Business School would also work in and with disadvantaged communities to develop new businesses opportunities at "the bottom of the pyramid".

A new business school with a "social" emphasis would have a much wider scope than just social enterprise as classically defined. Governance is becoming more collaborative as the limits of centralised state provision are reached and, as we argued in Chapter one, business as a whole is becoming more social as businesses develop collaborative relationships with their employees and their customers in order to survive and thrive. In that sense the practices and values of social business have a greater salience that transcends the sector. They can be said to represent a new paradigm of societal organisation - the collective entrepreneur and the smart state - driven in part by a shift in values and attitudes but also accelerated by technological change in the form of social media, social commerce and social software. This new era of new social business school should aim to become a beacon for this emerging "socio-nomic" model of business.

As Jeff Skoll, the philanthropist and founder of *ebay*, has said: "Social entrepreneurs will be the driving force over the next 100 years – the single biggest movement that is going to be changing the way we live." Wales should place itself at the head of that movement by aiming to create an international social summit, a kind of Hay Festival for social entrepreneurs – on a par with the Skoll World Forum or the Harvard Social Enterprise conference, and emulating the energy and spirit of the TED-talk movement - attracting the best minds and practitioners in social enterprise and collective entrepreneurship in the world today for a three day master-class

<sup>8</sup> "Reality and Optimism at Harvard Business School", *Harvard Magazine*, 26 May 2010

of ideas and inspiration.

## **Finance is the Key: new instruments and new institutions**

For social business, finance represents both a source of investment and a business opportunity.

In the wake of the financial crisis there is a renewed public appetite for a more ethical, socially responsible financial system. In Wales this was crystallised in the idea of a People's Bank – a publicly or mutually owned alternative to private sector banks. This idea was floated by both Andrew Davies, while Finance Minister, and Plaid Cymru in its 2007 manifesto. Notwithstanding issues thrown up by the regulatory response to the banking crisis, such as Basel 3, we believe there is significant potential to this prospectus.

Ideas for new home-grown financial institutions generally come in one of three different “flavours”:

**The creation of a development bank.** This has been a long running theme in a nation which feels justifiably under-served by a distant City of London. It was the source of inspiration for the original Bank of Wales and, more recently, the arms-length fund Finance Wales which emerged as the solution to the Lib-Lab Assembly Government coalition’s commitment to a regional development bank. Finance Wales has funded over 2000 Welsh businesses since its inception. Moving Finance Wales itself from its quasi-independent status to a public interest company on the Glas Cymru model might be considered, not least as it would remove any lingering doubt in the Treasury as to the implications for the Welsh Public Accounts.

There remains scope to create additional sources of development finance for Welsh business rooted within the social business sector. Alex Bird of Co-operatives and Mutuals Wales and Russell Smith of UWIC pointed out the prominent role played by Labour owned Investment Funds (or Solidarity Funds) in Quebec as a model. Transplanting this idea in its entirety would require Central Government support (in the form of tax breaks and legislative changes), but translated into our own context, pension funds have the potential to have a similarly transformative effect on the local availability of capital. Employee pension funds are after all socially owned investment funds – in theory at least answerable alone to their members, often with substantial trade union representation on their management committees. The Ottawa Teachers Pension Plan and Hospital of Ontario Pension Plan are both successful examples of locally invested funds which deliver a good return for their members.

There are eight major public sector pension funds, covering local government and public bodies, like the former WDA and the Universities, together with the National Assembly for Wales’ own

fund for Members and employees, which in total have over £6 billion under management. Collectively their record of equity investment in Welsh domiciled companies is risible. This is largely due to the traditionally risk averse nature of pension fund trustees and their aversion to certain asset classes – more recently perhaps their reaction to plummeting pension fund valuations – and the engagement of advisors and fund managers based outside of Wales. Even the diversion of 2% or 3% of these funds under management into an investment vehicle dedicated to investing in Welsh businesses and infrastructure would have a significant effect on the amount of capital available within Wales – while having a negligible effect on the exposure to risk of the pension fund’s assets.

A new combined all-Wales Pension Fund could save on administration fees while following a policy of investing, to some limited extent at least, in Welsh businesses. As a separate off-shoot, it could also create a sustainable regeneration investment fund along the lines of the ethical regeneration investment vehicle Igloo created jointly by pension funds and local authorities from the North West of England, and Aviva which is currently the lead developer for the Roath Basin project in Cardiff.

The other function of a development bank traditionally is, of course, investment in public infrastructure. The slashing of capital budgets in the public sector, cumulative under-funding through the Barnett Formula and the Welsh Assembly Government’s lack of borrowing powers have all conspired to create a mounting public investment deficit. New financial structures have a role to play here as well in plugging this investment gap. The Welsh Housing Investment Trust developed by Community Housing Cymru with Welsh Assembly Government support and currently being piloted is potentially an exciting innovation which has the intention to tap the private capital markets to invest in a mix of social housing, housing for intermediate rent and some housing for private sale.

In this new spirit of socially responsible financial innovation, the Mutual Home Ownership or co-partnership approach pioneered by the CDS Cooperative in London – and promoted by the Cooperative Party – is also worthy of being explored. Co-partnership emerged as a model in the early twentieth century – but failed to gain sufficient traction because of a lack of institutional support. The idea has recently been revived by the Co-operative movement and represents a hybrid model between rent and home ownership. Under this approach people pay flexible monthly payments in return for a share in the collective equity funded not through a personal mortgage but a corporate loan to what is in effect a housing co-operative. The Welsh Assembly Government could establish a Mutual Home Ownership Initiative in partnership with the three Welsh financial mutuals – the Principality, the Swansea and Monmouthshire Building Societies together with Community Housing Cymru, providing a start-up fund and a financial guarantee in return for commercial lending to new housing mutuals, starting with two pilot projects in rural and urban Wales.

On the wide question of public infrastructure, there should be no “Glas ceiling” in the application of social enterprise models as potential answers. Glas Cymru is heralded the world over as a new model in the mutual management of common resources. It has even made it to the giddy heights of a Harvard Business School Case Study. But if the rest of the world is learning the lessons, what were the wider lessons for Wales? Are there not other sectors to which the same approach could be usefully applied?

As a general principle, we would argue that natural monopolies should be in most cases be owned by their stakeholders – not their shareholders. Transport, renewable electricity generation, and broadband infrastructure are all areas which involve public goods with heavy public subsidies to reflect the positive externalities involved in their production and consumption.

In transport the Co-operative Party has made the case for deepening the accountability of Network Rail through opening its membership to every citizen. In the context of the Welsh railway network, the Welsh Assembly Government is in a position to influence decisions on who is granted the franchise for services running wholly or mainly within Wales through its joint signatory powers, with the UK Secretary of State for Transport, under the Railways Act 2005. Though the current franchise with Arriva Trains doesn’t run out until December 2018, the next Assembly Government should begin preparatory work on the new franchise being run on a not-for-profit basis as has been suggested for the new Scottish franchise by the Labour Party and in Wales where the Plaid Cymru Leader currently holds the Cabinet portfolio for transport.

An obvious area for a Glas Mark II is energy, more particularly renewables. A national public interest corporation could support and encourage locally owned community-based energy suppliers, helping local people build and own infrastructure that will reduce long term energy waste and reduce carbon emissions, and collectively pool their purchasing power. At the other end of the spectrum there is no reason why the Severn Barrage or the less environmentally contentious tidal lagoon project could not be funded on the Glas Cymru model, possibly with some elements of pump-priming or contingent liability from WAG. A more ambitious solution, currently under investigation by a team of experts working with WAG, is a Welsh Public Bond issued by a Welsh Infrastructure Fund, a kind of general-purpose version of the WHIT. Although a number of questions still remain to be answered they should become not a point of difference but a point of agreement between all the political parties. To this end the next Welsh Assembly Government should publish its proposal early in the next term.

Another vitally important aspect of our infrastructure that the Welsh Assembly Government has made an economic priority - universal access to super-fast broadband - is also ripe for collective provision through community-owned networks. Many will be familiar with Kingston Communications, 44.5% owned still by Hull City Council, the only telecoms provider in

the city and the only locally owned telecoms provider in the UK. Similarly Simon Gibson of Wesley Clover pointed to the highly successful publicly-owned fibre-optic network, the Utah Telecommunications Open Infrastructure Agency, in his evidence to the Enterprise and Learning Committee's inquiry into the Assembly Government's Economic Renewal Programme.<sup>9</sup> *Ons Net* – meaning “Our Net” – in the Dutch town of Nueneen is also 95% co-operatively owned. Could this not be a model for the roll-out of a fibre-optic network in Wales funded by a Public Bond?

**A Welsh savings super-mutual** - The big idea here would be a national umbrella providing accounting and regulatory services and back-office functions to credit unions owned and controlled by the credit unions themselves, along the lines of the kind of clearing houses that exist for credit unions in most countries, allowing expansion of their services and offering mortgages, guaranteed by a combination of Welsh local authorities and WAG. Initially locating this new body in an existing housing mutual could reduce both cost and risk, and could be floated off to become fully independent in due course. The already mentioned Moneyline Cymru, set up by the housing associations, and now with five branches throughout south-east Wales is another potential partner. The continuation in Wales of the Child Trust Fund premium would also provide a basis to expand the Welsh financial mutuals sector which have provided more than half the CTF policies, and sustain the positive change in the culture of saving that has been created as a result.

A third potential financial innovation would be the creation of *A Welsh National Trading Bank* providing liquidity, treasury and payment services to local authorities currently earning low rates of return from London-based investment houses with little or no involvement in Wales. The potential partners for this initiative, subject to regulatory approval, would be the Principality, Charity Bank, Finance Wales and the Unity Trust Bank.

The expansion of the social sector within finance is one area for development; the other is the expansion of finance to the wider social sector. In two out of three replies, the most recent social enterprise survey found finance and funding to be the greatest enabler of success, and lack of funding the greatest barrier to growth in social enterprises. Social businesses, according to survey responses, face the same level of difficulty in gaining access capital as SMEs.

While Wales has largely been excluded from mainstream financial services, there is an opportunity for Wales to become a major centre in the new emerging social investment market e.g. through the creation of the new social impact bonds (Social Investment Task Force, 2010). There have been two designated Welsh social bonds to date: the Welsh Coalfields Nurture Talent Bond created through the Cambridge-based social enterprise *citylife* and the Welsh Community Bond launched in 2009 by Charity Bank to enable Welsh investors to support local social causes. There is considerable potential to extend these. For instance Cylch, together

<sup>9</sup> Evidence on 6<sup>th</sup> October 2010

with Wales Sustainability Reinvestment Trust, is examining the potential for a 'green bond' issue to fund sustainable energy, transport and food projects.

For once, because of our disadvantage, we are a rich test-bed for these newly emerging models of social investment. Wales, and Cardiff as the capital, should aim to steal a march on other financial centres, even London, and form the world's first genuine social stock exchange trading social asset classes like the social impact bonds, the permanent interest bearing stocks of mutuals and co-operatives on a global scale and other forms of ethical investment. A relatively small investment should provide the infrastructure to create a genuine Welsh first. A social square mile, with shared offices for social enterprises and financial intermediaries along the lines of London's mezzanine complexes could be part of the development, gaining for Wales a unique niche in both financial services and social business.

The creation of a wholesale market for social finance could be pump-primed by changes in regeneration policy. The Welsh Assembly Government in its Economic Renewal Programme signalled a historic shift from grants to loans in business support. There now needs to be a parallel shift in the basis of support for communities: moving from grants to loans, investments and asset transfers. The "grant culture", however well-meaning, can lock communities and organisations into stasis. In that sense a grant represents "dead capital" – money that simply reproduces the status quo ante – and that once used up, is gone, and necessitates a further injection of grant, ad infinitum. "Live capital", a phrase originally coined by Adam Smith but recently resurrected by the Peruvian Hernando de Soto, represents money or assets that will earn a future return for both investor and recipient (de Soto, 2000). This fundamental shift is supported most strongly by those within the sector itself: the Wales Co-operative Centre has talked about "the need to shift reliance from grant to entrepreneurial advice and to loans and equity finance".<sup>10</sup>

In line with this approach our most radical proposal perhaps is the transfer of Communities First funding – together with the Dormant Account Funds for Wales – whose former role which might be described as capacity building in a vacuum to a Welsh Social Wholesale Bank working through and with existing organisations in the social finance sector to enlarge the pool of capital available for social purposes. With an initial capital of £100m and an additional £20m a year this bank would be a significant player, creating a social market infrastructure for social investment unparalleled anywhere in the UK. In the initial stages the WSWB could provide specific support for two new funds: a Social Entrepreneur Start-up Fund and a Social Venture Capital Fund aimed at high-growth potential social businesses. Xenos could work with WSWB to create a social business angels network. A new social financial forum for Wales involving the Charity Bank, Unity Trust Bank, and Cooperative and Community Finance (ICOF Wales) and other key

<sup>10</sup> Wales Co-operative Centre, Written Evidence, National Assembly for Wales Enterprise and Learning Committee Inquiry: *The role of social enterprises in the Welsh economy*: July 8 2010

players could be charged with helping oversee the development of a wholesale bank.

One final area where a form of grant support should continue is in the field of community asset transfer. A Welsh version of the Scottish Community right to buy legislation would give local community groups, including Community Land Trusts and social businesses, the right to buy unused local land and vacant buildings. A “right to try” fund to assist communities wishing to take over local services threatened with closure must also be a continuing part of a package of available support.



### **Moneyline Cymru**

Moneyline Cymru was set up in 2009 with the support of 16 housing associations, members of Community Housing Cymru.

## Chapter Three

### Social Enterprise and the Smart State

The ecological metaphor now being applied to the banking sector can also help us to understand the interplay between economy, society and the state. In championing the Big Society, the Coalition government should not underplay the complex linkages that exist between these sectors, linkages that are best understood as intersecting circles and mutually dependent ecologies. Reducing state activity may well create space for the private and third sectors to grow in the future, but in the short term cuts in public spending will adversely affect private firms and social enterprises alike. Nothing better illustrates this inter-dependent ecology than the plight of councils like Liverpool, which are cutting grants to third sector organisations on which a successful development of the Big Society largely hinges.

Although the mandate of the social enterprise sector is not confined to the most deprived areas of the country, where services for the poor tend to become poor services, there is no doubt that it has to do more in areas where neither the market nor the state offers much hope of social innovation and economic renewal. While the social enterprise sector can do much to help itself – especially as regards management skills, consortia building and better cooperation across the sector for example – it cannot become a more substantial sector without stronger, better and more imaginative nurturing. The nurturing we have in mind will have to come from a smart state.

What would a smart state strategy look like? First and foremost perhaps, it would draw on the *associational* state repertoire, where the key issue is not the scale of intervention but its mode, not the boundary between state and market but the framework for effective intervention. The overriding aim is to create a networking culture where states, firms and social enterprises learn to collaborate for mutually beneficial ends (Cooke and Morgan, 2000).

Within this associational framework, where each player learns that it can achieve so much more by acting in concert than by acting alone, a smart state ought to focus on what it is uniquely equipped to do in two respects – namely (i) to deploy its own powers in a more creative fashion to boost the social enterprise sector and (ii) to mobilise other players, like banks and universities for example, to deploy their own resources to this end. To keep this “nurturing agenda” focused on the most urgent priorities, we limit ourselves to four key themes that have emerged from the foregoing analysis, the areas where we believe a smart state strategy would have the greatest impact.

## **The power of purchase**

The public sector collectively spends more than £230 billion every year on goods and services, which is equivalent to £1 in every £4 that the Treasury spends in the UK, and this power of purchase has enormous transformative potential if it is deployed effectively. In Wales, as we have seen, the power of purchase has been hindered. A combination of factors is responsible. The easiest to fix is the need to ensure consistency of approach and an improvement of skills amongst public sector purchasing staff, to create a transformation from managing costs to managing value. This is acknowledged by both the Assembly Government and Welsh local government with measures being introduced via the apparatus of the Efficiency and Innovation Board. If the social enterprise sector is to be a top political priority in Wales, as we believe it should be, then it ought to receive more than the small share of public contracts that it currently receives.

## **Access to finance**

Finance has two roles to play in the growth of social enterprise: as a source of investment to the sector and as a mutual market segment within finance itself. As regards the former, new financial instruments are becoming available, like social impact bonds for example, but these are emerging too slowly to compensate for the immediate loss of income from the public sector. The role of the smart state is to accelerate this process by creating the framework and a functioning market for social finance – in pump-priming rather than cost-cutting mode - through which others can then innovate. Creating a new mixed ecology of banking and finance with a central role for mutual and socially oriented finance is more challenging, especially given the limited powers of the Assembly in financial regulation. But the emergence of a public sector pension fund with greater scale and a comprehension of its potential and wide social responsibility would seem a sensible place to begin.

## **Upskilling**

The social enterprise sector desperately needs to enhance its skills base, from volunteers to managers. Universities could help by fashioning new courses to enable actual and aspiring social entrepreneurs to access state-of-the art training. Wales is well positioned to orchestrate the multi-dimensional knowledge that is required to keep social enterprises on an innovative footing because the worlds of policy, practice and academia are socially and spatially proximate. A school for social business would help us press home that collective advantage.

## **Social infrastructure**

A dynamic social enterprise sector needs a mutually supportive social infrastructure. Firms learn best from other firms, and therefore social enterprises learn best from other social enterprises, organisations that are most familiar with the unique ethical challenge of the social economy. A recent survey of co-operatives in the UK came to a conclusion that is just as applicable to the social economy as a whole. Because too little attention had been given to how information, know-how and technologies are diffused between co-ops, it concluded by saying that “strengthening the way co-ops work together as a system is the first priority for a strategy of co-operative development” (Murray, 2010). Organisational innovation is one of the most pressing challenges for the social enterprise sector because, as we saw in Chapter one, it needs to act in concert if it is to secure larger public contracts, enabling it to be big enough to bid, but small enough to deliver in a locally-sensitive manner through its locally-earthed members. A smart state would be able to induce consortia of this sort by deploying its power of purchase to encourage and guide innovation in the sector.

All of the smart state actions identified above pre-suppose a political commitment to collaborate for mutually beneficial ends rather than the command and control ethos that has stymied state strategies in the past.

This brings us, finally, to the great political paradox in Wales. Although it is highly receptive to the cultural values of co-operation and collaboration, here is a country that has proved unable to reap economic dividends from this political culture by creating a wider array of co-ops, mutuals and social enterprises. We would go so far as to say that the quintessential test of this political culture, indeed a litmus test of its very survival in fact, is for Wales to prove that these cultural values are assets for a viable future rather than a liability bequeathed by the past.



### **Wales & West**

Georgetown football team over the moon with their new kit sponsored by Wales & West HA, pictured with Ivor Gittens, Chair of WWHA. Ray Davies, Secretary of the Club said, “Without WWHA sponsorship we simply would not be able to carry on.”



### **RCT Homes**

Grow Enterprise Wales (GrEW), set up in April 2010 by RCT Homes, created 22 permanent jobs, provided more than 500 training places and generated a turnover of more than £1 million in its first year. It provides cleaning, gardening, decorating and recycling services.

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