



The Centre For Business Relationships,
Accountability, Sustainability and Society

Working Paper Series No. 53

The extent and impact of formalized social
enterprise activities in voluntary and charitable
organizations involved in public service provision
in Wales

Celine Chew



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Published by

The Centre for Business Relationships, Accountability, Sustainability & Society
(BRASS)
Cardiff University
55 Park Place
Cardiff CF10 3AT
United Kingdom
<http://www.brass.cf.ac.uk>

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ISBNs 978-1-906644-20-8 (print)
978-1-906644-21-5 (web)



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The extent and impact of formalized social enterprise activities in voluntary and charitable organizations involved in public service provision in Wales

Dr Celine Chew

Abstract

This paper presents new empirical evidence from the survey stage of a two-stage methodological study that investigates the extent and impact of formalized social enterprise activities in voluntary and charitable organizations involved in public service provision in Wales. The survey is conducted in partnership with the Wales Council for Voluntary Action. Adopting an exploratory approach, the survey reveals that charities in Wales are undertaking social enterprise activities in informal and formal ways. Contrary to the much trumpeted governmental policies and initiatives to develop formalized social enterprise for public service delivery in the UK, charities in Wales generally ascribe their social enterprise endeavours not to any particular legal form *per se* but as part of a wider range of evolving activities undertaken by them to sustain or further their primary charitable mission/goals. Their decision to embark on formalized social enterprise activities had less to do with fulfilling the government's policy agenda of increasing public service delivery through social enterprises but more to do with adapting to an increasingly competitive fund raising environment. The type of social enterprise activities undertaken by charities tends to be narrow and revolves around specialist services and sale of products that are closely related to the charity's mission. Charities face challenges in the process of embarking on formalized social enterprise activities such as developing a weak business-orientation and skill base, balancing the benefits and risks associated with mission-related social enterprise activities, and managing the tensions arising from a clash of operating culture between the parent charity and its social enterprise subsidiary. These findings have specific implications for the management and governance of formalized social enterprise activities by charities and for the development of the social enterprise movement in Wales by policy makers, local governmental agencies and voluntary sector umbrella bodies.

Key words: Social enterprise, charities, public services, Wales, United Kingdom

Introduction

This paper¹ provides the findings of a survey that examines the extent and impact of formalized social enterprise activities in voluntary and charitable organizations (VCOs) in Wales. It builds on earlier research undertaken by this author (Chew 2008) that explored the impact of the process of social entrepreneurialization on the mission, governance and strategic positioning of British charities when they embarked on formalized social enterprise activities in the form of community interest companies (CICs). The CIC is a new legal organizational structure specially created by the UK government in 2005 for VCOs and private sector organizations in England, Wales and Scotland that wish to undertake formalized social enterprise activities.² The earlier research identified two key implications: [1] the emerging tension in the relationship and operating culture between the social enterprise subsidiaries and their parent charities, which would need to be considered in the policy development and management of third sector social enterprises with charitable origins, and [2] the need to generate greater public awareness and education among VCOs about the contributions of social enterprise to their organizations and the role the CIC could play in public service delivery and social change agendas.

Despite these emerging findings, there remains a lack of research that provides in-depth understanding of the impact of social entrepreneurialization on the core mission/values, innovative capacity and distinctive competences of charities in public service delivery in VCOs. Moreover, since the CIC was created in 2005 there is a lack of empirical research into understanding the extent to which charities in Wales are involved in formalized social enterprise activities (e.g. in the form of the CIC or in other ways), the reasons for charities adopting (or not adopting) the CIC compared to other organizational forms, and whether or not the social enterprise model is appropriate for public service delivery by VCOs. There is therefore a need to provide an exploratory map of this poorly understood terrain. This present research aims to examine whether the issues identified above apply to the charitable context in Wales, and if they do, what actions might be needed by charities, the wider voluntary sector

¹ An earlier version of this paper was presented by this author at Third Sector Panel in the 13th International Research Society for Public Management (IRSPM) conference in Copenhagen Business School, Denmark on 6-8 April 2009.

² The community interest company (CIC) was introduced as a new legal organizational model for social enterprise in Northern Ireland in April 2007 (DETI 2007a).

and the government to address them. The following research questions provide a conceptual guide for this investigation:

- To what extent are charitable organizations in Wales undertaking formalized social enterprise activities, and how are these activities organized?
- What are the factors that have influenced charitable organizations in Wales in establishing formalized social enterprise activities? And what benefits have they experienced in this process?
- What are the reasons for charities in Wales for not adopting the CIC organizational form for their social enterprise activities?
- What are the problems/challenges faced by charities in Wales in embarking on formalized social enterprise activities?
- What implications can be drawn from the findings for policy makers, local governmental agencies and voluntary sector umbrella bodies in furthering formalized social enterprise activities in charitable organizations within the wider voluntary sector in Wales?

Following this introductory section, the paper will outline the evolving policy context for the development of social enterprise among VCOs in the UK in section two. Section three reviews the literature on the social enterprise model for public service provision by charities in Wales. The research methodology for this study is outlined in section four. Section five presents the key findings. The paper concludes in section six with a discussion on the implications of the findings on the development and management of formalized social enterprise activities in charitable organizations in Wales.

The Policy Context for Social Enterprise in the UK

It is generally accepted that an impetus for the growth of social enterprise as an organized activity in the UK has been the current Labour Government's efforts in shaping the role of charities and the wider non-profit sector in a mixed economy of public service provision (Cabinet Office 1999; DTI 2002). VCOs in the UK have been encouraged to be involved in the delivery of public services through various policy initiatives since the mid 1990s, such as contractual partnerships with central and local governments (Strategy Unit 2002; HM

Treasury 2002; Alcock et al. 2004) and more recently using the social enterprise model as identified in the UK-wide *Social Enterprise Strategy Action Plan* (Office of the Third Sector 2007a). Under the social enterprise model, charitable organizations are urged to undertake social enterprise activities in partnership with government, i.e. ‘trading with the public body: undertaking specific activities in return for payment’ (HM Treasury 2005, p.19).

... Social enterprise offers radical new ways of operating for public benefit. By combining strong public service ethos with business acumen, we can open up the possibility of entrepreneurial organizations – highly responsive to customers and with the freedom of the private sector – but which are driven by a commitment to public benefit rather than purely maximizing profits for shareholders.

*(Tony Blair, the then Prime Minister -
in a foreword to the UK Government’s first
Social Enterprise Strategy, DTI 2002, p.5)*

The UK-wide social enterprise strategy - *Social Enterprise: A Strategy for Success* devised by the Development for Trade and Industry (DTI) in 2002 emphasized three key policy goals for the growth of the social enterprise model among VCOs and private sector businesses, [1] to provide an enabling environment (legal, regulatory and procurement of local public services) in which social enterprises can ‘compete and grow’, [2] to facilitate the development of social enterprises as viable and sustainable ‘businesses’, and [3] to establish the ‘value’ of social enterprise (DTI 2002; SEC 2003a, p.12). Being more businesslike and undertaking profit-making activities are thus increasingly encouraged in VCOs as defining characteristics of being socially enterprising (DTI 2002). A range of financial and infrastructure support amounting to over £400 million³ at national and local levels have been implemented since 2003 to develop the entrepreneurial capacity of VCOs and to drive the growth of social enterprises in public service delivery.

While central government sets the overall policy and funding directions for the development of social enterprises in the UK, the Regional Development Authorities (RDAs) in the nine regions in England and the devolved administrations (DAs) in Scotland, Wales and Northern

³ This includes funding by the Office of the Third Sector, Department for Children, Schools and Families, Department for Health, Department for Communities and Local Government, Department for Innovation, Universities and Skills, funding provided to the Social Enterprise Coalition, and the *Capacitybuilders Programme*.

Ireland are tasked with supporting the key social enterprise policy goals (Cabinet Office 2006). The English RDAs collectively manage a number of specific programmes that have been devolved from the national to the regional level (e.g. the Business Link Network and the Phoenix Funds provide support to encourage entrepreneurship among small businesses and social firms in disadvantaged areas at the regional level).⁴ Investment funding and small scale loan financing are also provided to VCOs and social enterprises through *Futurebuilders England*⁵ and the Community Development Financial Initiatives (CDFI)⁶.

The DAs in Scotland, Northern Ireland and Wales have introduced their own tailored strategies to develop social enterprise as part of their respective national policy agendas (Social Enterprise Unit 2007). For instance, a social enterprise strategy for Scotland was launched by the Scottish Executive in 2005, which builds on the work of the *Futurebuilders Scotland Programme* to develop the capability and capacity of social economy organizations in public service delivery. In 2004 the Department of Enterprise, Trade and Investment (DETI) of Northern Ireland launched a three-year cross-departmental strategy - *Developing a Successful Social Economy*, which was aimed at developing the contribution of social enterprises to the local social economy. Since then more specific policy and funding initiatives have been introduced to provide education, training and mentoring such as the *Social Entrepreneurship Programme* in 2006 to build the sustainability of new and existing social enterprises (DETI 2007b). The ambitious UK-wide policy goals to develop the contribution of social enterprise have also been the focus of the *Social Enterprise Strategy for Wales*, which was launched in 2005. In terms of financial support, the Welsh Assembly

⁴ England's regional development agencies (RDAs) were established in 1999 to drive forward sustainable economic growth across nine English regions. Each RDA received proportionate funding from central government based on the 'Single Pot' funding programme. The devolution of funding to the RDAs is based on the rationale that regions are best placed to determine the interventions required at local levels to develop the potential of social enterprise in the delivery of regional sustainable economic growth (Cabinet Office 2006, pp. 66-68). More information on the RDAs can be found at <http://www.englandsrda.com/home.aspx>.

⁵ Futurebuilders England is an innovative £125 million investment fund available to VCOs and social enterprises to help them build their capacity to increase the scale and scope of their public service delivery in England. More information can be found at <http://www.futurebuilders-england.org.uk>.

⁶ The Community Development Financial Initiatives (CDFI) provide private finance to projects run by small social enterprises that benefit regeneration and community development in local deprived areas. Their growth were the result of tax credits given by the Treasury in 2003 following recommendations for new tax incentives for community investment by the Cohen Report in 2000 (HM Treasury 2003; SEC 2003a, p. 14).

Government and the European Union have committed £7 million for a social enterprise support project to provide social and economic regeneration in West Wales. This project aims to raise the awareness of the contribution of social enterprises to the local economy by creating 50 new social enterprises and 300 new jobs over five years from 2008 (Welsh Assembly Government 2008).

Social enterprises harness entrepreneurial drive to achieve wider social objectives. In so doing they can help tackle social exclusion and regenerate deprived communities. In fact social and environmental objectives are the very reason that social enterprise exist.

(Welsh Assembly Government 2005, p. 8)

Despite central, regional and devolved governments increased efforts in developing the social enterprise movement in the UK, the emphasis has arguably been on harnessing the skills and expertise of private sector businesses for social and community purposes. This focus is reflected in the governmental definition of a social enterprise as a ‘business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community; rather than being driven by the need to maximise profits for shareholders and owners’ (DTI 2002, p.13). As it was highlighted earlier, a major milestone in the policy development for social enterprises in the UK has been the creation of the CIC for England, Wales and Scotland in 2005, and for Northern Ireland in 2007. A CIC can be incorporated as one of three legal forms: a private company limited by shares, a private company limited by guarantee or a public limited company. As a hybrid organization, the CIC does not have charitable status but it can be a trading subsidiary of a parent charity. Unlike a private sector organization, a CIC has special features (e.g. ‘asset lock’,⁷ limit on dividends payable and the ‘community interest test’⁸) that ensure it uses its assets and revenue for social purposes only (DTI 2004, 2005). At the same time, it can gift-aid⁹ any profits that it generates back to the

⁷ The ‘asset lock’ of a CIC means that if the organization ceases to be a CIC, the remaining assets will be transferred in a way that ensures that they continue to be retained for community benefit or charitable purposes rather than distributed to members/shareholders or investors. A CIC can only cease operations by dissolution or by conversion to a charity (DTI 2005; Office of the Regulator of CICs 2009).

⁸ The ‘community interest test’ for CICs is administered by the CIC Regulator who has legal responsibility to confirm that the CIC will pursue purposes beneficial to the community instead of a restricted group of beneficiaries. The test is whether a reasonable person could consider the CIC’s activities to benefit the community (DTI 2005; Office of the Regulator of CICs 2009).

⁹ A CIC can gift-aid or donate the profits or surplus from its operating income to the parent charity; it can then claim back tax (rate at 25% from April 2008) on the donated income from the UK Treasury.

parent charity for favourable tax benefits. An independent CIC regulator registers and monitors the activities of the CICs, and administers the community interest test on them.

Besides the newly created CICs, there are currently other legal organizational forms under which formal social enterprise activities can be performed in the UK, such as companies limited by guarantee, industrial and provident societies, companies limited by shares, unincorporated companies, and private trading subsidiaries of registered charities (DTI 2002, p. 7). However, NCVO (2008) suggests that VCOs have traditionally undertaken 'enterprising' activities, often in informal ways to support their charitable missions. The process of social entrepreneurialization could involve different transitional stages from initial informal trading activities within VCOs to emerging social enterprise start-ups and eventually to separate subsidiaries of charities that are self-sustainable through commerce and sales (Welsh Assembly Government 2005).

Several drivers have been cited as causes for the emergence of formalized social enterprise activities among VCOs, e.g. a response by them to provide particular types of public or quasi-public services due to market/state failures (Spear 2004) and a redefinition of the role of these organizations due to the changing relationship between the consumer, intermediate structures of civil society and the state (Defourny 2004). They have also been advocated as a vehicle to encourage social innovation and entrepreneurial behaviour that are directed towards the attainment of social/charitable goals (Boschee 2006; Nicholls and Cho 2006). Greater economic uncertainty and increasing competition for voluntary donations and statutory grants/contracts have also contributed to a challenging funding environment for charities in the third millennium (NCVO 2004; Wymer et al. 2006). These external drivers have exerted pressures on charities to diversify their income streams in order to sustain their core charitable work. This is reflected in the dramatic growth in earned income from trading (e.g. fees for services, selling of goods) in registered charities in England and Wales. This income source reached £15.6 billion or half of the total income of registered charities in 2006, which represented an increase of 69 per cent compared to their earned income in 2001 (NCVO 2008,

p.38). This increase contrasted with a lower rise of 18 per cent and 11 per cent in voluntary income and investment income respectively over the same period (NCVO 2007, 2008).

Although undertaking trading activities by charities in England and Wales for profits is legally permitted under current charity laws, charities have been cautioned about the financial and business risks associated with ‘non-primary purpose trading’¹⁰ for profits that could adversely affect their ‘public benefit’ worth (Charities Act 2006¹¹; Charity Commission 2007). Yet previous large scale mapping exercises of social enterprise in the UK (e.g. the IFF’s 2005 survey of social enterprises across the UK and the DETI’s 2007c study of social enterprises in Northern Ireland) have tended to assume that social enterprises predominately operate under selective organizational forms such as companies limited by guarantee and industrial and provident societies. These findings have arguably underestimated the extent of social entrepreneurial activity in other types of organizations such as in charities. This latter point reflects a key conclusion from ECOTEC’s (2003) meta analysis of 33 mapping exercises of social enterprises across the UK between 1997 and 2002, that is, the need to recognize the dynamic nature of enterprise activity and to incorporate ‘grey areas’, such as emerging social enterprise activity in other sectors, in research (ibid, p. 49).

The social enterprise model for public service delivery in Wales

The social enterprise model for public service provision in Wales has arguably only been a recent focus of the Welsh Assembly Government when compared to the initiatives of the other DAs in Scotland, Northern Ireland and the RDAs in England. The launch of the *Social Enterprise Strategy for Wales* in 2005 provided the impetus for concrete policy actions by the

¹⁰ UK charity law in England and Wales categorizes charities’ trading activities as ‘primary purpose trading’ and ‘non-primary purpose trading’. The former category is allowed if the activities contribute directly to the charity’s purpose/objects, while the latter activities are carried out in order to raise additional funds for the charity rather than directly furthering the charity’s purpose. Profits earned from non-primary purpose trading of charities are liable for corporate tax (or income tax for charitable trusts) (Charity Commission 2007).

¹¹ The UK Charities Act 2006 was given Royal Assent on 7 November 2006. It updates earlier charity laws in terms of, and among other things, the classification of charitable purposes, the legal duties of the Charity Commission, controls on public fund raising, and the introduction of the Charitable Incorporated Organization (CIO). It expands the list of charitable purposes from four to twelve, and requires charities to demonstrate ‘public benefit’ in their activities instead of it being inherently assumed previously. Charities established in Scotland have to satisfy a public benefit test under the Scottish Charities and Trustees Act 2005 (NCVO 2006).

newly formed coalition Welsh Assembly Government in 2006 towards developing the social enterprise movement in Wales.

Social enterprises have a central role to play in providing public services to local people, helping to regenerate communities and creating local wealth.

*(Leighton Andrews, Deputy Minister for Regeneration,
Welsh Assembly Government 2008)*

Improving the quality, availability and performance of public services for local needs is one of the major pillars upon which the Welsh Assembly Government's policy vision (2007-2011) for Wales is based. A major focus of the ***One Wales*** national strategy is on utilizing the social enterprise model as a 'new' vehicle to deliver a range of Welsh Assembly Government's initiatives such as community regeneration, creating new employment and improving service delivery to meet local needs (Welsh Assembly Government 2007). This focus has been encouraged by the recommendations of the Beecham Report '*Beyond Boundaries: Citizen-Centred Local Services for Wales*' for a citizen-centred local services model where public services are delivered by a diverse range of providers that are hybrid entities (e.g. social enterprises) with multiple goals, resources and organizational forms (Welsh Assembly Government 2006b, 2006c). Partnerships and collaborations between the public, private and voluntary sectors in improving public service delivery at the local level are thus actively encouraged to develop the social enterprise movement in Wales. This is demonstrated in initiatives such as the Communities First Programme and the Social Enterprise Support Project for community and local regeneration (Welsh Assembly Government 2006a, 2008).

Despite the benefits claimed of social enterprises, there could be potential risks and tensions arising from charities undertaking an increased level of commercial activities. The process of social hybridization in VCOs occur along three key dimensions: plurality in goals, governance mechanism and resources mix, which, as Evers (2005, p, 745) argues could reduced the distinctiveness of VCOs, in particular for those that provide public services under governmental contracts. Dees (1998) argues that social enterprise activities of VCOs should be carried out as part of their wider range of mission-centric activities, instead of emphasizing the commercialization (profit generating) aspect of these activities. Zimmerman and Dart

(1998, p.42) suggest that the motivation for charities to embark on commercial activities should go beyond revenue generation. Charities risk diverting their valuable time and resources away from their charitable principles and values if they embark on social enterprise activities solely to replace lost revenue due to a decline in income from voluntary and/or government sources. The impact of heterogeneous (and often opposing) goals and accountability to a multiplicity of stakeholders in social enterprises of VCOs could result in a clash of operating culture, inequality and clientelism in these entities (Evers 2005). Spear and Aiken (2007) highlight that there is a tendency for social enterprises in VCOs to emphasize structure and control in their governance mechanisms thereby hampering entrepreneurial activities. A heightened expectation by dominant stakeholders (e.g. government funders) on social enterprises to operate in a businesslike and innovative manner to address social problems and/or to sustain public policy objectives could potentially raise unrealistic performance standards too early in their organizational development.

Anecdotal evidence suggests that a low number of charities in Wales would consider adopting new organizational forms (e.g. the CIC) for their social enterprise activities despite the potential of increased levels of earned income generated by them. For instance, out of 2300 CICs registered with the Regulator of CICs as at December 2008, only 55 of them were located in Wales. What is striking is a lack of publicly available data on the number of CICs established by charities operating in Wales. Moreover, the extent of social enterprises in charitable organizations in Wales, has received little attention in previous mapping studies.¹² Given the emphasis of the *One Wales* policy agenda and the *Social Enterprise Strategy for Wales* to develop enterprising activities among VCOs (besides private sector businesses), it is timely now to assess the extent to which voluntary organizations in general and charities specifically have embarked on formalized social enterprise activities in accordance with the public policy developmental road map. Moreover, ECOTEC's (2003) guidance on mapping social enterprises has suggested that it is more appropriate to explore social enterprises initially at the local level and then to build up a picture of social enterprises nationally and

¹² The first social enterprise mapping study has been commissioned by the Welsh Assembly Government in July 2008 on 600 organizations in Wales. The results of this study have yet to be published at the time of writing this paper.

across the UK. The present research aims to meet this call by investigating the extent of social entrepreneurialization in charitable organizations in Wales from their perspective.

Methodology

A self-administered postal survey questionnaire was used to gather quantitative and qualitative data from a purposive sample of 500 charitable organizations operating in Wales (300 were UK charities operating in Wales and 200 were Welsh charities, i.e. charities incorporated in Wales and whose scope of operations are in Wales). The sampling frame is the Wales Council for Voluntary Action's (WCVA) database of registered charitable organizations operating in Wales. A purposive sample is commonly used in exploratory research (Saunders et al. 2000) where the main aim is to select a sample for a particular purpose in mind rather than to produce statistical generalization of the findings (Remenyi et al. 1998). This exploratory survey aims to provide an initial broad understanding of the extent of formalized social enterprise activities in charities operating in Wales, the benefits experienced and tensions/challenges faced by them during the process of social entrepreneurialization. Quantitative data from the survey questionnaires was analyzed using SPSS. The survey findings will be examined in more depth using semi-structured interviews with a sub-sample of the survey respondents at the next phase of the research in order to provide a more comprehensive answer to the research questions (Kvale and Brinkmann 2009).

Survey Stages

The survey was carried out in five stages in collaboration with the WCVA from November 2008 to April 2009. Partnership with the WCVA was needed for the survey due to: [1] their ownership of the register of charities operating in Wales, [2] data protection on the information about registered charities in their database, [3] the need to leverage on their authority in the charity sector in Wales, and [4] their experience in the design and distribution of questionnaires for surveys among VCOs in Wales.

Stage one involved exploratory discussions with an advisory group, which comprised of the WCVA, the Regulator of CICs, two charity practitioners and two academic experts who are knowledgeable in the voluntary sector and social enterprise in Wales to guide the

development of the survey questionnaire. Construction of the questionnaire took place in stage two where the literature on survey methodology and questionnaire design was extensively consulted (e.g. Foddy 1993; Fink 1995; deVaus 1996; Gill and Johnson 1997; Saunders et al. 2000). Pre-testing the questionnaire using a panel of experts was carried out in stage three in December 2008 to enhance content validity (Mitchell 1996) after the questionnaire was developed in both the English and Welsh languages. Comments about the content and layout of the questionnaire were obtained from a panel comprising of three academic experts in the voluntary sector and three charity practitioners. No significant problems were faced at the pre-test. The time taken to complete the questionnaire ranged between 20 minutes and 30 minutes. After reviewing the comments from the respondents it was decided that only slight revisions were needed to enhance the clarity of the covering letter. The final version of the questionnaire¹³ was mailed out in stage four in mid January 2009. Additionally, the questionnaire was available as an electronic version for respondents who wished to participate on line. The covering letter included the institutional logos of Cardiff University and the WCVA. A freepost reply envelope was enclosed in each outbound postal questionnaire. Respondents were provided a copy of the survey results as an incentive for their participation.

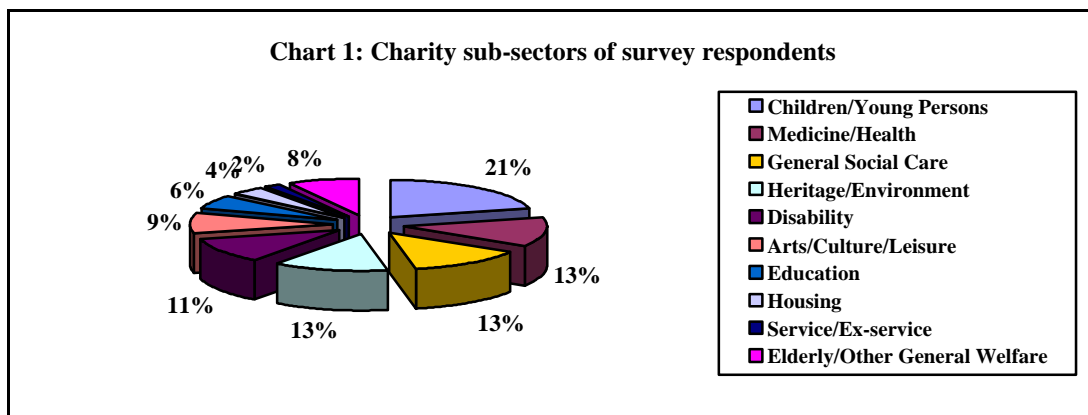
Stage five involved following up on non-respondents. Two reminders letters/emails were sent to those charities that had not responded by the first deadline of 10 February 2009. Constraint in time and resources prevented further reminders and the response rate achieved was 25 per cent (n = 125) as at 15 April 2009. A sample of 45 non-respondents were contacted by telephone, out of which 22 were reached and the reasons for their non reply were analyzed. The main reasons given were: no time or too busy, the person in charge was unavailable or on leave, and they either did not receive the questionnaire or had thrown it away. It was concluded that the reasons for non-responses would not result in bias in the findings.

Profile of survey respondents

The survey questionnaire was completed by persons in the charities who were knowledgeable in the planning, management and/or the implementation of the social enterprise activities in

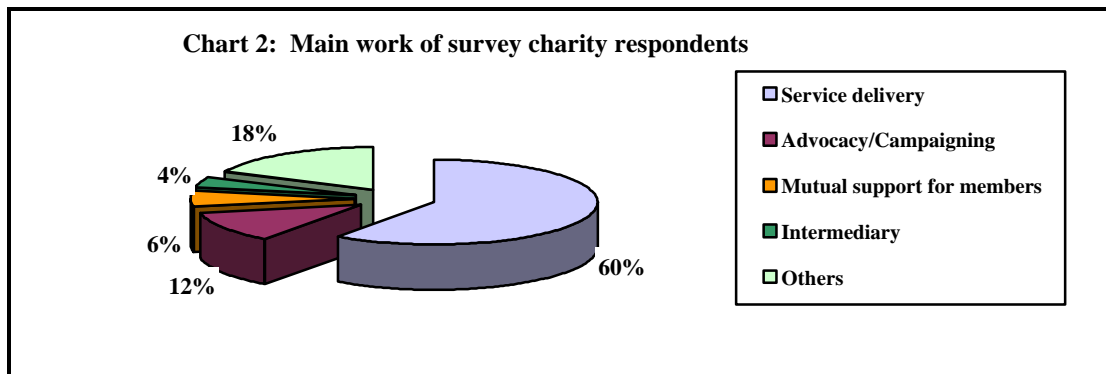
¹³ The full survey questionnaire used in the study is available from this author on request.

their organizations. An equal proportion of respondents were from UK charities operating in Wales and from Welsh (national and local) charities. The respondents were from a variety of charity sub-sectors, which are summarized in Chart 1. The sub-sectoral classification used in this study follows that used by the Charities Aid Foundation (2003) and Mintel (2001) for the top 500 UK fundraising charities. The largest proportion (21 per cent) of respondents was from the children/young persons charity sub-sector. This is followed by the sub-sectors of medicine and health, general social care, and heritage/environment (13 per cent of respondents each).



The survey respondents were from charities of different ages and sizes in terms of their average total annual income (between 2006 and 2008) and the number of paid staff in 2008. 70 per cent of respondents were in existence for over ten years, 18 per cent were between five and ten years, and 12 per cent were established less than five years ago. 52 per cent of respondents were from relatively smaller charities with an annual income of £250,000 or less, and with paid staff of less than 50 employees. 13 per cent of respondents generated an annual income of over £10 million and employed more than 500 staff. 70 per cent of respondents used formal volunteers in their activities, while 30 per cent did not.

Chart 2 shows the main work of the charity respondents. Service delivery was the most frequently cited (60 per cent) main work of the charities in the survey.



Voluntary income versus government funding

Respondents were active in attracting voluntary income. Voluntary income is defined in this study as income derived from donations (individuals and corporations), legacies, sponsorships, grants from trusts/foundations and other non-governmental sources (NCVO 2004). 67 per cent of respondents generated voluntary income that contributed up to half of their charities' total annual income. Only 10 per cent of them generated voluntary income that contributed between 50 and 80 per cent of their total annual income, while 23 per cent had voluntary income that contributed above 80 per cent of their total income in 2008.

However, 28 per cent of respondents also received government funding (non-voluntary grants and public service delivery contracts) to support their operations. Out of these respondents, 54 per cent received more than 50 per cent of their government funding from national sources (the European Union, UK and Welsh Assembly Governments), while 87 per cent of them received more than 30 per cent of government funding from local government in Wales. A cross tabulation of the respondents found that those charities with a low percentage of voluntary income (below 20 per cent) tended to compensate this with a higher level of government funding (above 60 per cent), which included income from public service contracts (see Charts 3 and 4).

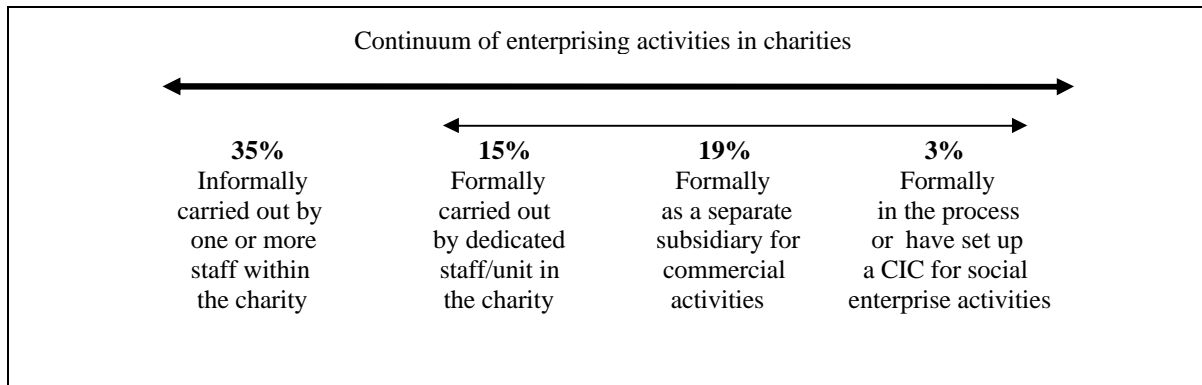
Key findings

This section presents the key survey findings, which attempt to answer the research questions established for this research.

The extent of social enterprise activities in charities operating in Wales

The first research question explored the extent of social enterprise activities in charities operating in Wales. Social enterprise activities are defined in this study as commercial activities undertaken by the charitable organization and/or its trading subsidiary to generate surplus or profit to support its social mission/objectives. 59 per cent of charity respondents undertook some form of social enterprise activities. They were relatively established entities, with 77 per cent in existence for at least 10 years. Out of these respondents, a larger proportion (54 per cent) were relatively smaller charities with annual income (from 2006 to 2008) of £250,000 or less, while 21 per cent had annual income of between £250,000 and below £1 million, 15 per cent had income of between £1 million and £10 million, and 11 per cent generated more than £10 million. Figure 1 depicts the extent to which the charities' social enterprise activities are formalized. 35 per cent of charity respondents who undertook some form of social enterprise activities did so informally as part of their main charity's operations.

Figure 1 Continuum of enterprising (commercial) activities in charity respondents in Wales

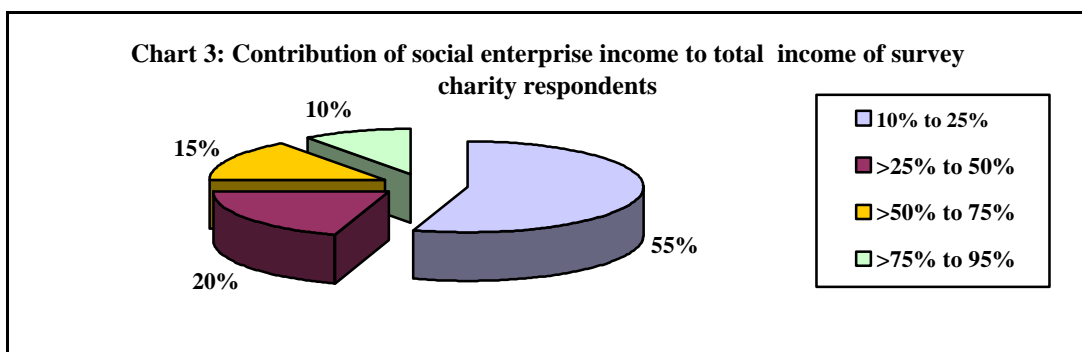


Note: The percentages do not add up to 100% as there were respondents who did not indicate a specific option and/or had indicated other ways of organizing their social enterprise activities.

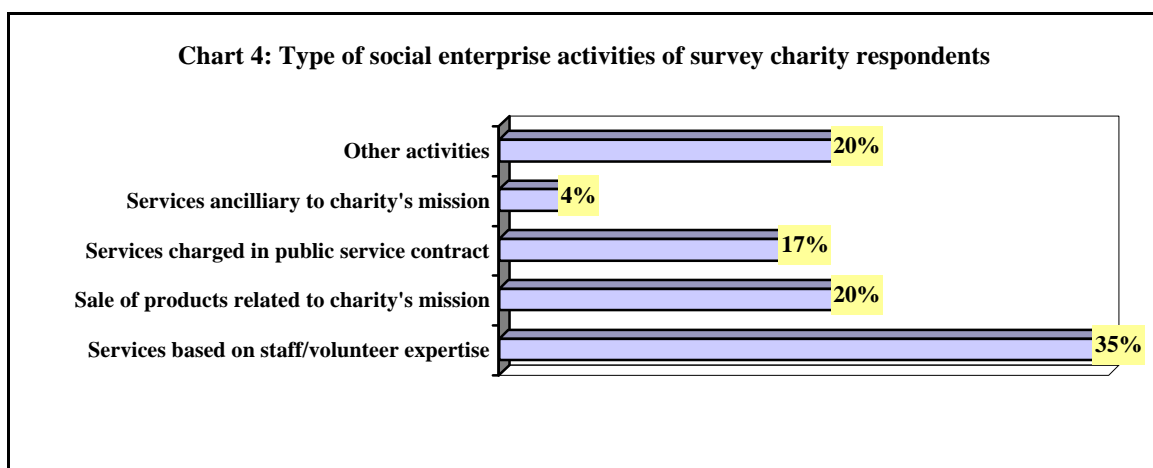
A slightly greater proportion (37 per cent) of respondents had formalized arrangements for their social enterprise activities. Out of these respondents, 15 per cent had a dedicated staff or unit in the charity organization to carry out their social enterprise activities, while 22 per cent

had set up a separate wholly owned subsidiary (19 per cent adopted the private trading company form, while only 3 per cent adopted the CIC form) for these activities.

Chart 3 shows the contribution of total annual income from social enterprise activities in the charity respondents. This contribution ranged between 10 per cent and 95 per cent. A majority (55 per cent) of respondents generated income of 25 per cent or less from their social enterprise activities. Only 10 per cent of respondents had an income contribution of above 75 per cent from these activities.



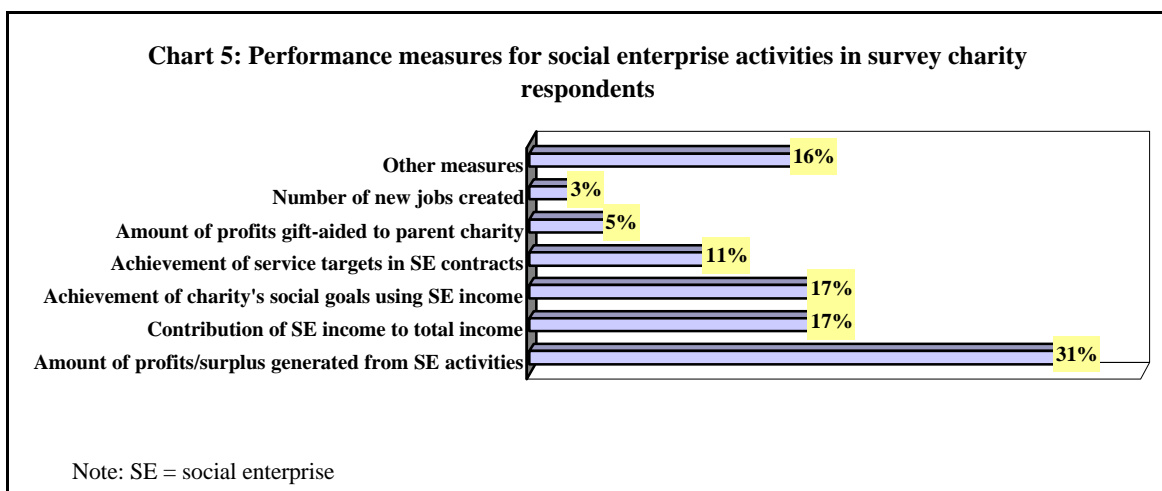
Charity respondents undertook social enterprise activities that revolved around their mission. Chart 4 shows the activities that were frequently cited by respondents. Providing services for fees based on the expertise of the charity's staff and/or volunteers was the most frequently cited (35 per cent) activity. This high proportion reflects the service delivery type of work of charities, which was undertaken by a majority of the respondents.



The second most frequently cited (20 per cent) social enterprise activity was the sale of products/merchandise that related closely with the charity’s work. Service provided and charged in public service contracts was the third most frequently cited (17 per cent) activity. Interestingly, no respondent had cited interest earned from lending out their ‘hard’ property (e.g. land, building or equipment) or royalties generated from external parties on the use of their ‘soft’ property (e.g. patent, trademark, copyrights, mailing lists) as sources of their social enterprise income.

Performance measures and key decision-makers of social enterprise activities

Charities in Wales use a combination of economic, social and other performance indicators to assess the success or failure of their social enterprise activities as highlighted in Chart 5. Primary performance measures are those indicators most frequently cited by respondents in this study. The top four primary performance measures cited were: [1] the amount of profits/surplus generated from trading/commercial activities by the parent charity or its trading/CIC subsidiaries; [2] the contribution of income from social enterprise activities to the parent charity’s total income; [3] achievement of the parent charity’s social goals/objectives using income generated from commercial activities; and [4] achievement of service delivery targets committed in public service contracts undertaken by the trading/CIC subsidiary. Secondary measures are those performance indicators cited by a minority of respondents (5 per cent and less) such as the amount of profits gift-aided to the parent charity and the number of new jobs created.



The most frequently cited person-in-charge of the charities' social enterprise activities were senior personnel such as the operations manager in the charity or the director in the trading/CIC subsidiary (21 per cent cited), the chief executive of the charity (19 per cent cited), and the Chair/member of the Board of Trustees or the Chair of the Board of Directors in the trading/CIC subsidiary (10 per cent cited). However, a majority 90 per cent mentioned the charity's Board of Trustees/Management Committee as the final decision maker of the strategic plans/directions of the charity's social enterprise activities. A minority 10 per cent cited the Board of Directors as the final decision-maker of the trading/CIC subsidiary. No respondent cited joint decision-making between the parent charity's Board of Trustees and the trading/CIC subsidiary for their social enterprise strategic directions. These findings support earlier evidence (e.g. Chew 2008), which showed UK charities maintaining an overarching control over their social enterprise subsidiaries' strategic development while providing them with a degree of flexibility in their operations.

Factors influencing charities to embark on formalized social enterprise activities

The second research question examines the key factors that have influenced charities in embarking formalized social enterprise activities in Wales. Table 1 summarizes the top five factors cited, which stemmed from a combination of internal and external orientations.

Table 1: Top 5 factors influencing charities in embarking on social enterprise activities in Wales

Influencing factors	Orientation	% Cited	Rank
Means to generate non-charitable income to sustain the main charitable work	Internal (economic, social)	30%	1
Alternative income source due to competitive funding environment for voluntary donations and /or government grants	External (competition)	27%	2
Charity's mission that encourages innovation and enterprise	Internal (social)	22%	3
Government policies that encourage social enterprise activities in charities	External (government policy)	19%	4 (joint)
Availability of government funding for enterprising activities/projects in the delivery of public/community services	External (government funding)	19%	4 (joint)
Means by which the charity can differentiate itself from other charities/voluntary organizations providing similar services	Internal (strategic positioning)	16%	5

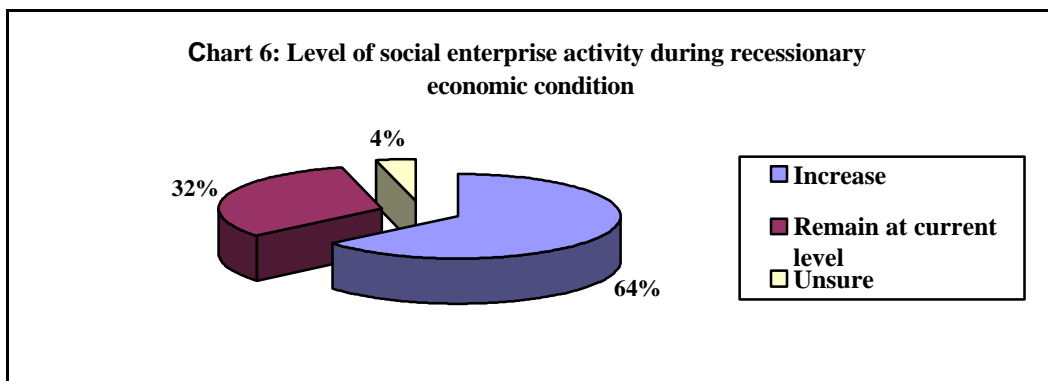
Note: percentages do not add up to 100% because a respondent can cite more than one factor and not all respondents cited five top factors of their choice.

Social enterprise activities were considered by charities as an economic means to generate non-charitable income to sustain their main charitable work. A charity's mission that encourages enterprise and innovation was cited as an important internal factor. At the same time, charities considered income generated from social enterprise activities as an important alternative source in an increasingly external competitive fund raising environment for voluntary donations and grants. Some respondents also felt that being socially enterprising would reinforce their strategic position as an independent entity that serves unmet social/community needs, as highlighted by a survey respondent:

We fear that the independence of many charities is threatened by an increasing dependency on government contracts. We have chosen to develop a social enterprise approach as an alternative to moving in this direction. (a survey respondent)

Governmental policies and funding initiatives were cited as important external factors that had encouraged charities in embarking on social enterprise activities. Other reasons cited were: a means to embark on activities outside the main charity's mission such as environment/green activities, a way to maintain independence from government or to be less reliant on government for funding, an avenue to develop skilled labour and research (e.g. in health and social care), and a source of networking opportunities for members who are served by the organization.

When asked about the level of social enterprise activity that their organization would undertake during the recessionary economic climate, a majority 64 per cent of respondents expected an increase in their social enterprise activities, while 32 per cent would continue their activities at the same level as in the previous year. The remaining 4 per cent of respondents were unsure whether they would increase, decrease or continue their social enterprise activities at the same level in the prevailing recessionary climate. No respondent expected a decrease in the current level of social enterprise activities in their charities during the recession. Chart 6 highlights these findings.



Respondents were also asked about the benefits they had experienced in embarking on formalized social enterprise activities. Table 2 groups the findings as primary and secondary benefits. Primary benefits are those benefits cited by respondents as the most important benefits realized by their organizations, while secondary benefits are among the second and third most important benefits cited by them.

Table 2: Benefits experienced by survey charity respondents in embarking on formalized social enterprise activities

Primary benefits (economic and social)	Secondary benefits (structure and process-related)
Diversify or broaden the charity’s funding base to support the core charitable work.	Manage the organization more strategically using more business-like procedures and practices.
Enhance the financial sustainability of the charity in the longer term.	Develop a more structured approach to income generation.
Provide formal acknowledgement of the new/separate activity to generate interest and commitment of the charity in the community.	Develop management, marketing and business skills in staff and volunteers to carry out the social enterprise activities.
Develop unrestricted income hence less reliant on donations and grants.	Clearer performance measures to assess social enterprise activities.
Develop alternative income source to maintaining independence from government as a funder.	Increase in publicity and awareness of the charity’s mission through the social enterprise work.
Facilitate formal involvement by different stakeholder groups in the decision-making process.	Create and develop skilled and specialized labour as a result of social enterprise work/projects.

The findings suggest that primary benefits accrued to charities from their social enterprise activities tended to be economic and social ones. These benefits had enabled the charities to sustain their social missions/objectives using (unrestricted) income generated from formalized commercial/trading activities, while at the same time providing them with an avenue to diversify their revenue base in financially challenging times. Secondary benefits tended to be structure or process related, e.g. they contributed to the development of internal skills, structured procedures and a more businesslike operating culture, which were deemed to be more effective in managing the charity's social enterprise activities.

Challenges/Problems faced by charities in undertaking formalized social enterprise activities in Wales

It was reviewed earlier in this paper that several authors (e.g. Zimmerman and Dart 1998; Evers 2005; Spear and Aiken 2007) have highlighted the potential problems and conflicts that could arise in the process of social entrepreneurialization in third sector organizations. The third research question in this present study examines the challenges faced by charitable organizations in Wales in embarking on formalized social enterprise activities - whether these problems had deterred charities from adopting the social enterprise model (e.g. in the form of the CIC), and the ways to encourage more charities to formalize their social enterprise activities. As it was shown earlier in Table 1, only a very small number of respondents (3 per cent) were in the process of setting up or had set up a CIC as a wholly-owned subsidiary of the parent charity at the time of this research. The main benefit expressed was the legal protection provided by the CIC for the charity's assets compared a conventional private trading company/subsidiary.

Reasons for charities not adopting the CIC organizational form

Respondents that had undertaken social enterprise activities were asked whether more charities *would adopt* the CIC organizational form in the future. 22 per cent felt that more charities would adopt the CIC form, while 3 per cent did not think so. Interestingly, a majority 76 per cent was unsure if more charities would or would not use the CIC form. However, when respondents were asked if charities *should adopt* the CIC organizational form for their social enterprise activities, only 5 per cent said yes, 3 per cent said no, while the

remaining 92 per cent were unsure. Table 3 lists the main reasons given by respondents for not adopting the CIC structure for their social enterprise activities at time of this study. While 27 per cent of respondents felt that their existing arrangement was more appropriate for their organizational purpose, 10 per cent also thought that the CIC was not appropriate for the nature/scope of their activity, which is well summed up by three respondents:

CIC's are one solution to a range of options. Each has to be weighed up and the most appropriate route followed. One can't be prescriptive. (a survey respondent)

The CIC has special features that would be make it a good alternative for some charities e.g. those who have not set up a trading subsidiary yet or those that operate in certain sub-sectors such as environment, sports/leisure or community services where 'customers' will pay for the services provided. But, it is not for every charity. (a survey respondent)

The CIC is a halfway house. Either the social enterprise is really a business and should operate as a trading company to facilitate growth or be a charity. (a survey respondent)

The other underlying issue brought up by respondents (60 per cent) revolved around a lack of awareness about the CIC structure, how it differs from a conventional trading company status and the potential benefits/risks that could accrue to the charitable organization. A lack of awareness about the CIC among charities could explain an earlier finding that 92 per cent of respondents were unsure if charities *should* adopt the CIC structure for their social enterprise activities.

Table 3: Main reasons given by charities for not adopting the CIC organizational form for formalized social enterprise activities

Main reasons for not adopting the CIC	% cited
Not explored this option yet and need to find out more about this before doing so (e.g. we are getting round to this but it is still early days for the CIC; we may go down this route within the next three years depending on funding and demand for our services; we are in the process of doing this).	40%
No need/not necessary for a CIC at the moment (e.g. we have a structure that works; why should we adopt the CIC?– keep it simple; there is no need for a CIC as we are already a limited company).	27%
Lack of awareness and information about the CIC, the differences between a CIC and a private trading company, the benefits to a charity and the process of becoming a CIC).	20%
Small-scale social enterprise activities do not warrant adopting a CIC as a subsidiary at the moment.	13%

Not appropriate for the scope/nature of charity activity (e.g. not universal for all types of charities, unclear about who is accountable for the performance of the CIC).	10%
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Note: percentages do not add up to 100% because a respondent can cite more than one reason and not all respondents had provided at least one reason.

Additionally, 13 per cent of respondents felt that the scale of their social enterprise activities was relatively small and this did not warrant setting up a CIC subsidiary at the time of this study. The findings suggest that, despite the bespoke features of the CIC created for social enterprise activities by the UK Government for VCOs and other organizations, and the various initiatives taken (e.g. by the Regulator of CICs or the Welsh Assembly Government) to promote the CIC, more effective efforts are needed to reach a wider spectrum of VCOs in Wales.

Tensions and challenges faced by charities in the process of social entrepreneurialization

Table 4 summarizes the main tensions and challenges faced by respondents when embarking on formalized social enterprise activities (either within their organization or in the form of a separate trading/CIC subsidiary). The most frequently mentioned challenge was the need to develop a business-orientated operating culture among managers and staff who were responsible for the social enterprise activities. However, in the same breadth, some respondents raised concerns about the high expectation imposed on social enterprises to demonstrate their social/community value, and the potential erosion of charitable values in charities that are pressured to develop a businesslike approach in their resource attraction in an increasingly competitive fund raising environment. This concern is embodied in the comment by a respondent:

As charities are forced more into a business orientated mind set in order to survive, the very nature of charitable organizations is changing - they are becoming businesses. They may have charitable objectives in their constitutions, but that does not guarantee that the organizational culture will support healthy charitable working. There is basically nothing wrong with change, but it is how the change affects the sector. There is more and more expectation that social enterprise will offer the services and support that central and local government cannot achieve. If government is expecting increasing levels of services to be provided by the third sector, for example via tenders, then the third sector needs to direct how these services are delivered. (a survey respondent)

Respondents also cited the lack of capacity and capabilities such as marketing, entrepreneurial, legal and strategic management skills in smaller charities to develop and sustain social enterprise opportunities.

For a small organization whose work does not lend itself to income generation, developing social enterprise is a gargantuan task. In a sector where sustainability is all the rage, smaller organizations just do not have the capacity to develop activities that will generate sufficient income to substantially reduce reliance on grant funding. It also restricts the type of organizations that survive - with the emphasis on income generation and financial sustainability the sector is becoming more and more commercially minded and this leads to the erosion of charitable aims. (a survey respondent)

Table 4: Tensions and challenges faced by charities when embarking on formalized social enterprise activities

Tensions/Challenges	% cited
Need to develop a business-orientation among managers and staff involved in the charity's social enterprise activities.	18%
Difficult to generate a sustained income/surplus from the enterprise/commercial activities that contributes to the charity's social mission/goals.	15%
Conflict between the operating cultures of the parent charity and that of the subsidiary/unit involved in social enterprise/commercial activities.	14%
Need to develop appropriate marketing and commercial skills (lacking) in the staff delivering the charity's social enterprise activities, especially in smaller charities.	14%
Need to establish an appropriate governance mechanism to monitor the charity's commercial/enterprise activities to ensure they are aligned with social goals/objectives.	9%
Potential erosion of the charitable values and volunteer ethos. Establishing legitimacy in the eyes of various stakeholders.	8%
Other problems/challenges: e.g. lack of positioning to differentiate charities when many charities have taken the same social enterprise route; a time consuming process of rewriting the Memorandum and Articles of Association for the social enterprise entity; legal advice needed for complex taxation issues; time and skills needed to organize and promote the social enterprise activities; a challenge to sustain the generation of income from social enterprise activities compared to grants; any surplus profits may be needed to pay for additional staff taken on to manage the social enterprise activities; divert the resources and focus from the charity's main work.	22%

The issue of developing an appropriate internal governance structure for social enterprise activities in charities was also cited as one of the key challenges faced by respondents, in particular those that have established a separate social enterprise/trading subsidiary. This finding echoes that gathered from Chew's (2008) study, which revealed a complex symbiotic

relationship between the charity and its social enterprise subsidiary. The internal governance mechanisms had to accommodate such a relationship while ensuring that the commercial/enterprise initiatives of charities helped them avoid mission drift. Moreover, some respondents in this present study have highlighted the importance of establishing independent external governance mechanisms to ensure that the social enterprise activities undertaken by charities do not endanger their social *raison d'être*. In this respect, the CIC's asset lock, its limits on dividend distribution and the required community test by the CIC Regulator could provide such safeguards (DTI 2005; Office of the Regulator of CICs 2009).

There is a need to establish an independent commission who will monitor or police the governance and structure of organizations involved in social enterprise activities. This must be free of political and commercial influence with equal representation from all sectors on its management board. (a survey respondent)

Ways to encourage more charities to embark on formalized social enterprise activities

The final research question attempts to find out ways in which more charities in Wales could be encouraged to undertake formalized social enterprise activities, in particular in the form of the CIC. Respondents provided several interesting comments to this question. Table 5 groups the most frequently cited suggestions into four key areas – increase publicity, greater funding opportunities, more financing and legal incentives, and specialized training to develop management and marketing skills that are relevant for social enterprises.

Greater efforts by external parties (e.g. government agencies, local authorities, the CIC regulator and the Charities Commission) to provide information on social enterprises and the CIC in Wales were the suggestion most frequently cited by respondents. This suggestion mirrors one of the major problems perceived by charities that was mentioned earlier (see Table 3) - the lack of awareness about the CIC and the various national/local initiatives in Wales for social enterprise in charities. Respondents also highlighted the need for charities themselves to raise awareness of their social enterprise activities by publicizing these efforts to various audiences in the community as part of their fund raising strategy, instead of relying on government for funding support. The availability of training opportunities, mentoring and consultancy to charities in Wales to help them develop skills (e.g. business management and

marketing) that are relevant for their social enterprise activities was another major suggestion provided by respondents. These support services could be part of a wider developmental pathway that is recognized by various employment/volunteer agencies and the Welsh Assembly Government for charity staff who are involved in social enterprise activities.

Table 5: Ways to encourage more charities to embark on formalized social enterprise activities in Wales

Major ways to encourage social enterprise in charities	% cited
Increase publicity by government agencies/CIC regulator to generate greater awareness of the role/benefits of and the process of setting up formalized social enterprise/the CIC among charities and voluntary organizations.	30%
Easier access to finance/funding for social enterprises, especially during the start-up years.	29%
More financial/tax benefits that are part of the legal features of the CIC to recognize the contribution of social enterprises.	26%
Specialized training in business development and marketing skills for staff in charities and/or CICs handling social enterprise activities.	15%

Note: percentages do not add up to 100% because a respondent can cite more than one reason and not all respondents had provided at least one reason.

Respondents in charities that were in the process of setting up or had set up a CIC commented that they had not experienced difficulty in developing their social enterprise activities nor did they face major problems in finding information to guide their decision to adopt the CIC model for their social enterprise subsidiary. At the same time, they added that adopting the social enterprise/CIC model should not be forced upon charities. This decision should be an individual charity's choice after balancing the potential benefits and risks to its charitable purpose and independence. This perception is elaborated in the comment below:

... Neither of these [different organizational modes] is any more desirable than another - each carries risks and benefits. Our main concern has been to develop an independent identity not tainted by accusations of undue dependence on government or corporate sponsors... Other charities actively court this type of dependence. As such, while social enterprise offers us a way of meeting charitable objectives without selling our independence, it will not be every organization's choice. (a survey respondent)

Discussion and implications

The survey findings have surfaced five inter-related themes, which could pose implications for the governance, management and policy development of social enterprises in Wales specifically and in the UK in general. First, over half of the sampled charitable organizations operating in Wales have undertaken social enterprise activities that generate profits/surpluses to sustain their existing operations and/or to further their charitable mission. However, the type of social enterprise activities undertaken by these charities is arguably limited to a narrow range, i.e. specialist fee-for-services provided to members/clients or as part of a public service contract, and the sale of products that are closely related to the charity's mission. Kerlin (2006) compares the development of social enterprises in the United States and Western Europe, and concludes that historical and cultural factors shape the type of social enterprise activities in different national contexts. While social enterprises in the UK have emerged predominantly from the third sector since the 1980s, the type of social enterprise activities that have evolved attempted to address those areas where the government had retreated from or had not been able to meet demand such as social housing, personal welfare services, work integration/employment, and local regeneration (Spear 2004). These 'specialist' services were often provided to a specific target group of user/beneficiary by charities, and are considered as a key positional advantage of VCOs (Chew 2009). Moreover, as it was shown in Figure 1, a third of the charity respondents in this research carried out their social enterprise activities *informally* within their organizations. They tended to be more established charities but were relatively smaller entities (in terms of annual income and the number of employed staff). NCVO (2008) argues that VCOs have traditionally been enterprising as an integral part of their purpose for existence. However, the increasing trend of earned income in charities (as a major component of their trading income) since the early 2000s suggests that social enterprise activities undertaken by UK charities have increased in response to an increasingly competitive fund raising environment for traditional sources of income (e.g. donations and grants). This trend is likely to continue as charities increase the level of their social enterprise activities during the current economic recession. What is less clear from this exploratory study is the extent to which increasing non-primary trading/commercial activities by charities in Wales will impact on their charitable mission,

core values of voluntarism and their independence. Further research could provide valuable insights in this area.

Second, and relating to the first theme, is the extent in which charities operating in Wales have adopted formalized arrangements for their social enterprise activities. A third of the charity respondents have a dedicated unit/staff that was responsible for social enterprise activities or have organized these activities in a separate private trading subsidiary. Charities also used a number of indicators, which included financial and activity measures, to evaluate the performance of their social enterprise activities. However, a significant revelation from this survey was the very low adoption rate of the CIC organizational form by charities in Wales. While charities had derived economic and processual benefits from the formalization of their social enterprise activities, they also felt that their existing organizational arrangements were more appropriate for their charitable purpose. Indeed, some charity respondents commented that their charities *'are social enterprises and there is no need to adopt new legal forms.'* Two plausible explanations are offered for this situation. Firstly, there is strong evidence from this study supporting earlier research (e.g. Chew 2008; Office of the Third Sector 2008b) that points to a low level of awareness among charities in Wales about the social enterprise policy developments in general and of the CIC organizational form specifically. Secondly, this present study suggests that there is more to social enterprise in charities than legal forms or performance targets. Charities, in practice, tend to ascribe their social enterprise endeavours not to any particular legal form *per se* but as part of a wider range of evolving activities undertaken by them to further their primary charitable mission/goals.

Additionally, there appears to be a degree of confusion among some charity respondents about the legal position of a 'charity' compared to a 'social enterprise' as organizational forms for their enterprising activities. A 'charity' as an organization form possesses charitable status with legal rights to carry out limited non-primary trading activities (Charities Act 2006), while a 'social enterprise' has been defined (e.g. by the DTI 2005) as a for-profit making entity that uses 'business' approaches to benefit community purposes. Hence, the CIC has been specially created by the UK government as a bespoke legal structure for social

enterprise activities by charities and other organizations (Office of the Regulator of CICs 2009). In this respect, ECOTEC (2003) suggests that adopting the CIC as an organizational form for social enterprise activities could provide a better source of information on the social enterprise movement in the future. Yet this study provides some evidence to support other authors' view (e.g. Evers 2005; NCVO 2008) that the focus on organizational form or on sectoral demarcation by policy makers is a narrow way to define or measure the extent and impact of social enterprise in VCOs. Emphasizing the range of enterprising activities that VCOs carry out and recognizing the informal nature (besides legal forms) of these activities could therefore be a better way to accommodate and explain the wider contribution of charities in building social capital.

Third, and relating to the second theme, are the problems associated with the adoption of the CIC as a social enterprise subsidiary of charities. One of the top three reasons cited by charities in Wales in this study for *not* adopting the CIC organizational form was a lack of understanding of what this new legal structure means to a charitable organization, how it is different from a traditional private trading company and the availability of financing. These concerns are consistent with those highlighted in a study *'Is Social Enterprise at a CrossRoads?'* commissioned by the Office of the Third Sector (2008b) to advise the government on the future development of social enterprise in the UK. Interestingly, that study revealed a degree of public confusion between a social enterprise and a charitable organization. We acknowledge that not all charities will adopt the CIC as a formal structure for their social enterprise activities. However, it is precisely because the social enterprise movement in Wales (and indeed in the UK in general) is at an embryonic stage of development that more targeted efforts are needed by external parties (e.g. the Welsh Assembly Government, the Regulator of CICs, the Social Enterprise Coalition and the WCVA) to inform and educate a wider spectrum of VCOs in Wales about the social enterprise strategy for Wales and policy initiatives on the CIC as an alternative legal form for social enterprise in charities. Increase publicity was also one of the suggestions given by charity respondents in this study to encourage more charities in embarking on formalized social enterprise activities in Wales. Chew's study (2008) concludes that charities in England, Wales and Scotland make a conscious strategic choice to establish CICs as their social

enterprise subsidiaries after weighing the benefits and potential risks of that decision on their sustainability in the longer term. Their decision had less to do with fulfilling the government's policy agenda of increasing public service delivery through social enterprises but more to do with adapting to an increasingly competitive fund raising environment. In this respect, charities should proactively promote their social enterprise endeavours and contributions to various audiences. However, in doing so, they would need to ensure that their commercial endeavours gain the legitimate support of a wider number of stakeholders, in particular their members, donors, volunteers and the communities they serve (Kanter and Summers 1987).

Fourth, this survey has surfaced two notable challenges faced by charities in the process of establishing formalized social enterprise activities. They are: developing a business-orientated culture among managers and staff involved in social enterprise activities, and concomitantly managing the tension arising from the clash of operating cultures between the social-orientated parent charity and a relatively more business-orientated social enterprise subsidiary. Social enterprise has been conceptualized in the organizational behaviour and strategy literatures as a hybrid entity with multiple goals (e.g. social, economic and environmental) and a mixed resource structure taken up from the market, state and civil society (Evers 2004). Several authors (e.g. Borchee 2006) have highlighted the risk of culture clash during the hybridization process of social enterprises of VCOs. Although there is insufficient evidence from this survey to explain these challenges fully, a plausible reason is offered here. The potential tension stems from the contrasting *raison d'être* of the parent charity and its social enterprise subsidiary, and the responsibilities of the decision-makers in these two entities. The social enterprise subsidiaries were set up by their parent charities as trading entities. They could assume a greater degree of business risk and generate revenue from commercial activities, which was constrained in their parent charities by charity laws. The more enterprising and businesslike operating culture of the social enterprise subsidiaries is in contrast to the more conservative and risk adverse culture of the parent charity (Spear and Aiken 2007). Charities in this study have raised concerns about the potential erosion of the charity's ethos and charitable values as charities pursue more commercially driven strategies and activities. Chew's (2008) study suggests that this tension could be managed through establishing effective internal governance mechanisms and communications, and

developing appropriate skills for social enterprise activities. However, the skills required to effectively manage and deliver social enterprise activities are arguably different from conventional commercial enterprise skills. Austin et al. (2006) suggest four dimensions in which a social enterprise of VCOs differ from a purely commercial trading entity: [1] the reason for its existence (due to market/state failure to meet social or environment needs), [2] a hybrid-orientated mission (combining elements of social and economic motives), [3] a hybrid resource mix, and [4] multiple performance measures, which include the social impact of enterprising activities (Kanter and Summers 1987). Therefore, a bigger challenge facing charities with social enterprise subsidiaries is to develop appropriate skills in their staff using approaches that recognize the hybrid nature of social enterprises and that are not based on a direct import of private sector principles.

Fifth, governmental policies and funding initiatives to develop the social enterprise movement were the most frequently cited external factor that had influenced charities in Wales in embarking on formalized social enterprise activities. This paper has highlighted the range of governmental initiatives to create an 'enabling' framework to develop the social enterprise movement in Wales and the UK. These initiatives encompass legal, regulatory, infrastructure, education and research dimensions. However, we would argue that the existing strategic development for social enterprise in Wales (and indeed in the UK generally) is predominantly government-driven, and tends to focus on using the social enterprise model as an alternative vehicle for public service delivery in partnership with public bodies. While early social enterprise development in Wales had relied on governmental support, several authors (e.g. Kerlin 2006) have argued for a reduced central or devolved government-led growth for formalized social enterprise activities in VCOs. Instead, local governments in Wales could engage more actively with VCOs to develop a wider range of social enterprise activities for the local communities they serve, and provide demand for the products/services offered by social enterprises (Borzaga and Defourny 2004). Indeed, early efforts by VCOs to cultivate their enterprising activities in the UK were done without public sector support (Kerlin 2006, p. 256). In this respect, the charity's mission that encourages innovation and enterprise was cited as a key internal factor that had influenced charities in embarking on formalized social enterprise activities. If charities pride themselves as inherently innovative, enterprising and

independent they should be more proactive in determining the strategic direction of their social enterprise endeavours instead of relying on external parties, in particular government, as a precondition for their success.

Conclusion

A major contribution of this paper is to provide new empirical evidence on the extent and impact of formalized social enterprise activities undertaken by charitable organizations in Wales as a component of the wider voluntary sector in the UK. The survey findings have revealed that charities in Wales are undertaking social enterprise activities in varying degrees, and in informal and formal ways. Contrary to the much trumpeted governmental policies and initiatives to encourage VCOs to adopt the social enterprise model as a vehicle for public service delivery in the UK, charities in Wales have been generally cautious in embracing this model. While some charities have derived benefits from the formalization of their social enterprise activities, many of them considered their existing traditional arrangements (formal and informal) as more appropriate for their charitable purpose. They consider their social enterprise endeavours as part of an evolving mix of income-generating activities to sustain or further their charitable mission/goals. A large number of charities in Wales are relatively smaller entities and they have been less enthusiastic to adopt new organizational forms, e.g. the CIC structure, for their social enterprise activities. This does not imply that efforts to promote and educate charities on available funding and policies on social enterprises should cease. What is needed is a more targeted approach to these efforts to reach a wider spectrum of VCOs and engage them at the local level more effectively.

The boundaries between the voluntary, public and private sectors will continue to blur as more charitable organizations with diverse origins embark on commercial activities and adopt hybrid organizational forms, such as the CIC, for their social enterprise undertakings. Charities would need to be aware of both the benefits and the risks of embarking on increasing levels of commercial activities that could distract them from their charitable purpose/goals, and increase public confusion about their distinctiveness.

A lack of empirical studies on the social entrepreneurialization of charities in Wales has necessitated the use of an exploratory approach to this survey. Whilst the response rate for this survey could be higher, the findings have nevertheless helped to fill an information gap in the current poorly understood terrain on charities and their social enterprise activities. The emerging findings and implications will be examined further by this author using in-depth interviews on a sample of survey respondents at the next stage of the study.¹⁴ The combined evidence from the survey and interviews aim to provide a more comprehensive picture of the extent and impact of formalized social enterprise activities on charities in Wales.

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¹⁴ Further outputs from the research will be reported by this author when they become available at the BRASS website (research projects) http://www.brass.cf.ac.uk/projects/Business_Impacts_Regulation_and_Management/business-impacts-regulation-and-management--Social_Enterprises_and_Public_Service_Provision_in_Wales.html

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