

## **Mission Led Business review**

Submission from Middlesex University and ESRC Centre for the Understanding of Sustainable Prosperity, July 2016.

### **Summary**

Data on MLB is potentially available from BIS Longitudinal Small Business Survey, but requires more attention to survey questions identifying MLB

Data presented on Social enterprise market trends overlaps with MLB with 88% of businesses considered as social enterprises meeting the MLB definition.

The definition of MLB needs to consider the inclusion of artistic value and leisure related wellbeing (such found in sport and leisure services) as well as social and environmental value.

MLB businesses face challenges in maximising their impacts through growing organisations and through sharing their knowledge. There is a tension between protecting intellectual property for commercial objectives and sharing knowledge to reach their missions.

Well implemented regulation can be seen by MLB as a way of creating a level playing field and ensuring competitor businesses offer a similar high quality of service/employment.

Current social investment approaches providing repayable finance to asset locked social enterprises are struggling to find adequate demand and at times may be simply displacing bank finance. Evaluations need to ascertain the additionality of current social investment models and make recommendations for the redesign of these funds based on the needs of MLB and other types of social enterprises.

There is demand for grant finance to support innovation in MLB and other types of social enterprise

### **Introduction**

1. We welcome the Mission Led Business Review and will respond to key issues regarding the data on this sector and challenges faced. This builds on current work being undertaken for the ESRC Centre for the Understanding of Sustainable Prosperity (CUSP) and previous research in peer reviewed journals on SMEs and on social enterprise undertaken as part of the ESRC Third Sector Research Centre. We address our comments predominantly to question 1- on the number and profile of mission led businesses (MLB) while also sharing some relevant findings on challenges to MLB strategy and social investment.

### **Number and Profile of MLB**

2. The MLB review has a clear definition of its remit, but the definition of MLB does overlap with the definition of social enterprise used by the Cabinet Office and BIS for the past decade. The debates around defining social enterprise are therefore useful in understanding MLB. Research on social enterprise has been beset by definitional issues. While social entrepreneurs find such debates a distraction from their work, it has resulted in public policy being based on very poor quality evidence.

3. Our research has shown that the reported rapid growth of social enterprise numbers in the UK is predominantly based on a changing definition of social enterprise (see Lyon Teasdale and Baldock, 2010 and Teasdale, Lyon and Baldock, 2013). This work also shows that the reported social enterprise population is predominantly made up of enterprises that would meet the MLB definition. Our work on the 2006-2007 Annual Small Business Survey found that 89% of the social enterprises were in a form that could be distributing profit to individuals. Similarly the analysis of the 2014 Small Business Survey also finds 88% of the social enterprises are in a form that allows profit to be distributed (Cabinet Office 2016).

4. It could be concluded that the BIS Small Business Survey is therefore a potential source of data on the MLB sector. However, we have major concerns about the current use of this data and some of the survey questions used to identify social enterprises. We therefore recommend that the MLB draws on those with experience of analysing this data set in order to improve its use in future. The survey now has a longitudinal element which will help explore the issues facing MLBs, but the social mission related questions (needed to identify MLBs) may be removed from the 2016 survey due to methodological weaknesses. We look forward to the 2017 survey having questions related to social mission and the work of the ESRC Centre for the Understanding of Sustainable Prosperity will be able to inform this. We will also be able to match existing data from the BIS survey with the Business Structure Data base allowing limited longitudinal analysis.

5. The MLB review should also explore the wider interpretations of 'mission led' beyond the social and environmental dimensions. For example, much of the cultural industries focus on artistic and cultural value, and leisure/sport related services focus on wider concepts of wellbeing, with entrepreneurs prioritising their calling or professional passion over profit.

### **Challenges faced**

6. We have completed qualitative case studies of growing MLB comparing them to other forms of social enterprise. Lyon and Fernandez (2012) found that MLB children's nurseries shared similar growth challenges as social enterprises registered as charities. An MLB nursery was growing through expanding nurseries, setting up new nurseries, spinning out diversified projects into new enterprises and providing training to other organisations supporting children. In this way, growing social impact was found to occur through the sharing of knowledge even when operating in a competitive environment. Vickers and Lyon (2014) explored growth of MLB type environmental social enterprises and found that many also aimed to grow their social impact by combining service delivery with sharing their knowledge. For these 'Green knowledge economy' enterprises, they found ways of generating income through training and consulting that also helped them maximise the social and environmental impacts. A key constraint on growth has been the limited market for their products and services and a highly competitive market place. There is a tension between protecting intellectual property for commercial objectives and sharing knowledge to reach their missions.

7. Research at Middlesex University has found that well implemented regulation is seen as an enabling factor, creating a level playing field, and avoiding the 'race to the bottom' as less ethical businesses undercut MLBs. Some social enterprises report that they see regulation as a minimum standard and aim to exceed the levels (for example going beyond required energy efficiency measures).

8. Our review of research on social enterprise strategy (Doherty, Haugh and Lyon, 2014) focuses on how mission led businesses act as hybrids and have to balance the commercial and social objectives. Further studies make the distinction between the mission integrating enterprises (meeting their social objectives through their trading) and mission separation enterprises (which generate a surplus to be reinvested in philanthropic activity) (Doherty, Haugh and Lyon, 2016). Our work and subsequent training programme with Charity Bank and social enterprise groups shows that the core competence for success is the ability to navigate a way through these different objectives. This requires attention to recruitment and building experience within the organisation.

### **Social investment**

9. Access to finance is reported as a major constraint by many forms of enterprise. Our analysis of the SEUK Social Enterprise Survey (Lyon and Baldock, 2014) included analysis of finance for social enterprises with a MLB legal form. This found that MLB were slightly less likely than other types of social enterprise to seek finance. This also found that banks were the major provider of repayable finance for all the social enterprises providing 64% of the deals. There is therefore a risk that social investment, from public sector or philanthropic sources, displaces finance from conventional banks. This issue has not been addressed in evaluations to date.

10. A number of official reports on social investment in the UK have found that there is a lack of demand from social enterprises and charities (Cabinet Office, 2013; Social Impact Investment Taskforce, 2014). The MLB review is an opportunity to revisit the evidence of the demand for social investment and provide recommendations about how to best direct the limited philanthropic and public funds to ensure there is an additional impact. Our review of the construction of the UK social investment market (and particularly Big Society Capital) found that the justification for using public/philanthropic funds is based on an interpretation of evidence about the lack of 'access to finance' but the data used to show this draws on questions interpreted by respondents as a lack of access to grants and (to much lesser extent) repayable finance. This could explain the lack of demand for social investment from social enterprises. This has implications for the MLB review regarding the demand for grant finance from both MLB and other types of social enterprises, particularly when developing innovative approaches to tackling social and environmental challenges.

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