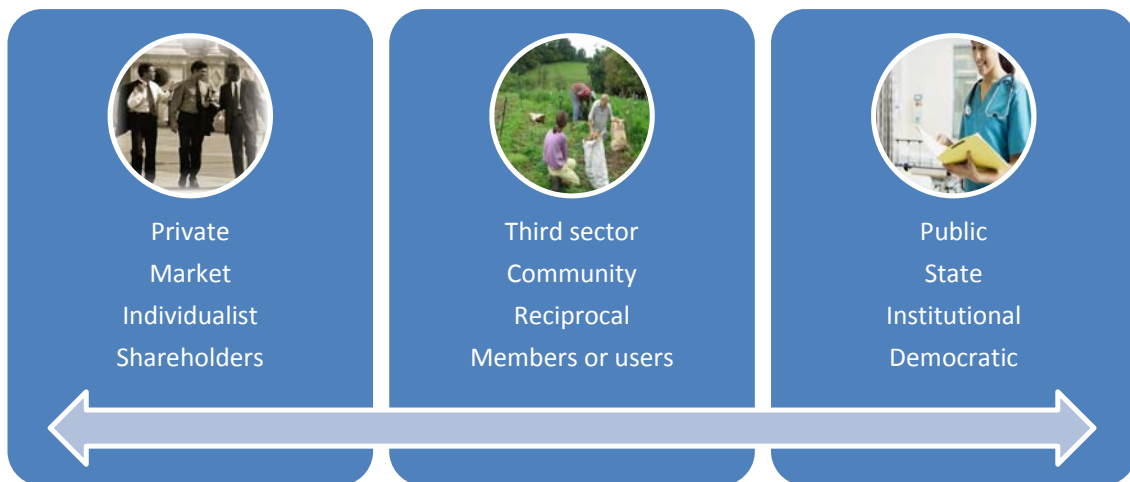


The Role of Social Enterprises in the Welsh Economy
Inquiry by the National Assembly's Enterprise and Learning Committee

Submission by Cardiff Institute for Co-operative Studies

1. Theoretical framing of the social economy

Academics often refer to social enterprises as forming part of the 'third sector'. This is based on a view of the economy as falling into three parts: public, private and the third sector which includes economic activities that are not profit-making nor funded through taxation. Historically, before the advent of the market system, this sector played a much more significant role. As the graphic illustrates, each sector has its own source of funding, pattern of ownership and system of governance. The third sector, where social enterprises are found, is characterised by social and community relationships and a mutual ethic.



We can think of social enterprises as distinct from both market firms and public service providers. Sometimes this is portrayed as a 'gap-filling role' so that social enterprises are seen as making up for the failure of market and/or state provision. However, we do not support that portrayal. Rather we see social enterprises and co-operatives as a superior business model that can offer high-quality goods and services without the loss of value to those who do not directly contribute to the business. We see this model as equally relevant to improve the performance of public and private sector organisations.

For a social enterprise to truly live up to that name, it is important that those who use its services (consumers) and those who provide its services (employees) have a high degree of control over how the business works. It is also important that the social enterprise does more than simply offering services to a local authority on a contracted-out basis. In terms of profits, a true social enterprise will share the value of its activity with both its employees and its consumers.

2. Key concepts

To understand how the economy functions it is helpful to have some clearly defined ideas, what academics might refer to as ‘organising concepts’. In this section we outline two of the concepts that we have developed to help us study and discuss how social enterprise works, especially in a Welsh context.

Capital anchoring

Researchers at Wales Institute for Research into Co-operatives (the forerunner of CICS) developed the concept of ‘capital anchoring’ as one possibility of a localising response to the pressures of globalisation (Arthur *et al.*, 2001). Although this idea depends particularly on co-operatives, where those employed effectively own their own jobs, it can also be applied to social enterprise more widely. We argue that the notion of ‘capital anchoring’ at the regional level, through employee ownership and community enterprise, can play a key role in achieving the sustainable growth of indigenous capital.

The fundamental principle of capital anchoring is to broaden and localise the ownership of businesses and capital within adversely affected regions of nation states through the creation of investment trusts. These ‘trusts’ would localise authority and control over capital, thereby giving greater priority to the socio-economic needs of regions and their citizens than impersonal globalised financial markets do. Particularly important here is the notion of anchoring capital to its locality, thereby discouraging ‘capital flight’ (see case-study 1).

A study we undertook with funding from the WAG New Ideas Fund developed the idea of ‘capital anchoring’ in connection with the cultural industries in Wales (Arthur, *et al.*, 2007). Increasing political interest in social enterprise has highlighted particularly its role in the inclusion of marginal workers, especially the young, into the labour-market. Our research project explored the relationship between organizational structure and socio-economic impact in the Welsh music industry. In our research we drew an analogy between the way Wales’s indigenous resources—predominantly coal—had been extracted by English mine-owners, with little of the value staying with the Welsh people, and the way that the Welsh bands that have achieved great critical and commercial success have seen most of that value accrue to London-based record companies.

Our conclusion was that Welsh policy should be designed to keep the maximum amount of the value of Welsh musical talent in the country by using the co-operative form of organization for promising talented musicians. The work of Promo-Cymru provides an exemplar of how this might be done. We also suggested that the development of social enterprise, whether in the creative industries or elsewhere, should be seen as offering great social value in itself, whether or not it generates products that can be sold in the market. It is important that this is not overlooked in the Enterprise and Learning Committee’s review. Our contention is that co-operatives offer the best means of keeping the maximum economic value in the Welsh economy, but they also offer considerable social benefits in terms of confidence, well-being and the development of social as well as economic skills.

Associative entrepreneurship

The radical history of Wales, and the nature of its employment history, have created a particular culture, which has offered stony ground to the development of individualist entrepreneurship. In the South Wales Valleys, for example, there was a long cultural history of struggle between ‘management’ and employees in the workplace alongside a powerful sense of community self-reliance, which has left such communities suspicious of solutions which are based on individual ‘enterprise’.

The first economic development document published following devolution, *A Winning Wales* (Welsh Assembly, 2002), emphasised the failure of entrepreneurship and the need to build a more enterprising culture. However, there are several historical features that might militate against the development of entrepreneurship in the Valleys areas of Wales. First, the dominance of the coal and steel industries and the resulting concentration on industry-specific skills. Secondly, the dependence on secure and well-paid jobs close to home in the pit or steel-mill has left a sense of ‘learned helplessness’ amongst male, manual workers. And thirdly, the predominance of foreign-owned, extractive industries has created an association of the concept of ‘entrepreneurship’ with the concept of ‘exploitation’, with a parallel conviction that being economically successful must mean ‘doing others down’.

In her ethnographic exploration of North Wales, Trosset (1993) identified the importance of ‘acting to support the ideal of an egalitarian society’. The wish to ‘deny having power, and to seek to avoid at least the appearance of being in a position of authority’ she identified in Welsh culture is likely to work against the need for strong personal authority that is taken to be one of the key characteristics of the individualist entrepreneur. The alternative is to work with the grain of the socio-economic context and develop a range of solutions that evolve from the local community, drawing on local people’s productive social experiences and resonate with their culture of self-reliance. This is what we describe as ‘associative entrepreneurship’, and we suggest that it might be a form of enterprise that would take firmer root in Welsh economic soil.

3. Recommendations

Before reaching concrete recommendations it is important to stress that in the phrase ‘social economy’ we would put the greatest emphasis on the second word, rather than the first (Arthur *et al.*, 2010). We do not see social enterprise as a business model for deprived local economies which cannot survive in the cut-and-thrust of the capitalist market, an economy for losers, if you will. Rather, we propose the social economy as a positive economic form which offers an alternative to the competitive model that has not served Welsh people well in the past. It is our contention, as demonstrated in our research papers which are available on request, that the greater development of Welsh social enterprises would allow public money invested in Wales to be anchored in Wales and to achieve a higher multiplier value for the Welsh people. In addition, Welsh society would benefit from more engaged, competent and skilful citizens.

1. *Achieving synergies between social enterprise development and the green agenda*

Work we have undertaken has demonstrated that there is a link between the nature of the governance and ownership of a business and its relationship to its local community and environment (Cato *et al.*, 2006). There is therefore great scope in encouraging the development of the green economy in Wales through a network of community-owned co-operatives. This has a particular advantage in the case of wind-farm development, where planning permission is much more likely to be achieved without local opposition if the community will benefit financially from the development (Cato *et al.*, 2008). (See case-study 2. Sundance Renewables.)

2. *Relocalising finance*

As is demonstrated by case-study 3 on Spice, the role of money is crucial in regenerating local economies. We would recommend that the WAG explores the possibility of spreading the existing examples of local currencies to encourage the development of a co-production approach to public services, as well as ensuring the increased value of the local multiplier. In terms of business investment, we would suggest support for the development of worker-investment trusts along the lines of the labour investment trusts described in case-study 1.

3. *Achieving value for public money*

Our proposal to achieve the maximum return on public investment is that viable businesses that operate as co-operatives should be favoured, since this will ensure the anchoring of capital in the local economy. We would also suggest that the WAG explores the possibility of setting up a Marcora-style fund (Menzani and Zamagni, 2009)—at least in the convergence areas. This was a fund established by the Italian government to provide grant funding to enable the buyout of failed firms by their workforces. There is a risk that threatened workers may be unrealistic about the probability of the success of a firm, but in cases where global groups are simply shedding less profitable holdings, this would enable employment and production to be maintained in Welsh local economies.

4. *Professionalising the sector*

It has been a longstanding problem with the social enterprise sectors in Wales and elsewhere that, while there is a great deal of goodwill and enthusiasm, specific business-related skills are sometimes lacking. The training gap frequently arises because training that is available is offered within the conventional business idiom and jargon and does not chime with the values and culture of the social entrepreneurs. We would suggest the establishment of sector-specific training through a Continuing Professional Development framework and by academics who have a thorough knowledge of and commitment to the social economy.

Case-study 1. Labour Investment Trusts

Labour Investment Trusts are funds that are a democratised form of investment controlled by and serving the needs of labour and its communities in preference to those of traditional finance capital. Such approaches in principle offer the prospect of locally anchoring capital, thereby attenuating the use of cost minimisation strategies and reducing job losses. This should commensurately increase the priority given to local desires and needs, enhancing corporate social responsibility. Wage rates are likely to increase, as is workers' control, possibly generating more enlightened workplace practices. Wealth retained locally will enhance the local multiplier effect. An example of such schemes in action is in Canada, where the trade union movement, in partnership with provincial and federal governments, has sought to localise investment by developing labour sponsored investment funds (Lincoln 2000:729). The principal aim of these funds is to create and sustain employment in regions severely affected by globalisation. The initial fund was created in 1983 in Quebec, but they have since grown rapidly and are now valued at about US\$ 6 billion and control 51% of all Canadian venture capital (USW website 2009).

Case-study 2. Sundance Renewables

Sundance Renewables is a workers' co-operative whose objective is to achieve community regeneration through appropriate and sustainable methods and the development of renewable energy projects. It was established in 2004 and set up a small-scale facility near Ammanford in Carmarthen to recycle used vegetable oil into biodiesel. This resolves the issue that is sometimes raised about the carbon impact of crop diesel, since waste oil is a by-product of the food industry which, if left untreated, would decay and produce methane—a much more powerful greenhouse gas than carbon dioxide. So Sundance successfully turns a potentially damaging source of waste into useful fuel. The biodiesel co-operative recently (April 2009) expanded its activities into another highly deprived local economy by opening a new production plant in Tredegar. Another new venture, supported by the recycling organisation Cylch, has been the development of a renewable heating fuel made from the glycerol that is a co-product of the biodiesel refining process. Sundance is a prominent example of the way in which social enterprises—and especially co-operatives—build value into local economies and also increase the skill level of local people. Like many co-operatives, work is shared so that those who are members of the co-operative learn a wide range of skills. So far, Sundance has created nine jobs in a high-unemployment area, as well as turning a potentially harmful waste into useful fuel, thus contributing to the WAG's carbon reduction targets.

Case-study 3. Spice

Spice is a creative collaboration between the local authority and citizens to create wealth out of their own skills and within the framework of time banking. Participants in the scheme contribute their time working on community projects, or with public services, and they then exchange the community credits they have earned, on trips to local leisure and recreational facilities. The role of Spice itself is crucial here as the broker between the two parties: the public sector and the private individual. Spice determines current

and new opportunities for people to contribute their time by liaising with public services and local community groups, guaranteeing there will always be an interesting variety of means for people to contribute their time. On the other side, the benefits of the scheme for participants, Spice's role is similarly crucial. It maintains the cost-effectiveness of the scheme by finding spare service capacity, or 'empty seats', which can be filled by those who have contributed their time. In Cardiff, participant service providers include leisure centres, theatres and cinemas, and the local rugby and ice hockey teams. They do not lose out by providing these resources free of charge, because they are excess, and would not have been filled anyway. What makes Spice interesting as an example of time-banking is that it is highly compatible with the activity of local authorities. Applying its structure within the public sector means that there is always demand for people to give their time, and it also gives access to a wider array of benefits when it comes to exchanging the credits earned.

More about Spice: <http://www.justaddspice.org/>

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