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Scott, Duncan; Teasdale, Simon

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Scott, Duncan and Teasdale, Simon

Lead author: Duncan Scott

Second author: Simon Teasdale

Third Sector Research Centre

Park House

University of Birmingham

Birmingham B15 2TT

Email: S.Teasdale@bham.ac.uk

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Abstract

The social enterprise literature is dominated by stories of good practice and heroic achievement. Failure has not been widely researched. The limited policy and practice literature presents failure as the flipside of good practice. Explanations for failure are almost wholly individualistic, and related to poor governance. However, organisational studies literature shows that failure cannot be understood without reference to the wider environment within which organisations operate. This paper is based on a nine year in depth case-study of an organisation previously characterised in the policy and practitioner literature as an example of good practice and heroic achievement. We seek to explain its 'failure' through studying the interaction between the organisation and its wider environment. We show that simple individualistic explanations are not sufficient by which to understand social enterprise failure and outline the implications for academic understanding of social enterprise.

Key words failure; social enterprise; third sector,

Introduction

Enterprise Action (EA) began life in 1993 as a one-worker non-profit agency grounded in church and community group responses to the onset of mass redundancies in Steeltown.[i] In little more than a decade it had grown to a multi-project award-winning 'social enterprise', visited publicly by two senior royals and the then Home Secretary. Less than twelve months after the chief executive was awarded 'regional social entrepreneur of the year' (for the second time in three years), the collapse of the organisation into liquidation and closure was underway.

Those researching social enterprise have tended to neglect the study of failure. A widespread enthusiasm for 'good practice' in the policy and academic literature has led to an over-emphasis on individuals (social entrepreneurs) and organisations (social enterprises) to the detriment of the wider environment within which they are situated. The utility of good practice accounts for organisational or academic learning is limited (Harvey et al, 2010). Studying cases of poor performance or failure may be more helpful to our understanding of organisations (Lindsley et al, 1995; Walshe et al, 2009).

However there are methodological issues around researching failure. In the wider organisational failure literature researchers have tended to rely on analysis of large datasets charting business dissolutions, or the experiences of those managing failing organisations. The first approach is impossible for studying social enterprise failure as there are no reliable datasets, or even consensus as to the content and size of the sample population. (Teasdale et al, 2011). The second approach is problematic as people tend to accentuate their own agency when describing success, and to over-emphasise the relevance of external factors when describing failure (Mellahi and Wilkinson, 2004). Fortuitously in the case of EA, the lead author of this paper was immersed in the field as 'failure' unfolded as part of (what turned out to be) a nine year in-depth case study of social enterprise. Drawing upon this unique,

extended period of research access, this paper asks 'what factors might be associated with the failure of EA?' In particular, what are the implications for our understanding of social enterprise?

The paper is structured as follows. First we draw upon the wider organisational literature to understand how organisational failure has been conceptualised and identify implications for researching social enterprise failure. We then introduce the case study organisation that forms the focus of this article, and describe the methods of data collection. This is followed by a case study charting the rise and fall of EA, paying particular attention to the events directly preceding and following the failure. Finally we return to the wider social enterprise literature to contextualise our findings and embed our contribution within this literature.

Failure, social enterprise and the third sector

Most organisations 'fail' (Ormerod, 2006). For some this may be temporary, and followed by turnaround (Paton and Mordaunt, 2004). For other organisations failure is absolute, and accompanied by liquidation (Mellahi and Wilkinson, 2004). The 'success rhetoric' has tended to play a dominant role in organisational change literature, leading to the binary characterisation of cases as either successes or failures, and an endless search for common or unique success factors without recognising the complexities of social processes (Vaara, 2002).

It is more difficult to conceptualise failure in the third sector as organisations have social goals but failure is socially constructed in economic terms (Mordaunt and Cornforth, 2004). Most studies of social enterprise failure concern 'mission drift' rather than financial failure (see Dart, 2004). Although one of the largest studies of social enterprise in the United Kingdom highlighted high levels of financial failure, particularly in deprived areas (Amin et

al, 2002), there has not yet developed a coherent literature on the terminal financial failure of social enterprises.

In a wide ranging review of the organisational failure literature, Mellahi and Wilkinson (2004) identified a broad split between 'deterministic' and 'voluntarist' explanations of failure. From within the deterministic school, institutional theory sees the organisation as embedded within its wider environment. Organisations draw their legitimacy and status (and hence resources) from their association with the field or industry in which they are situated (Baum and Oliver, 1992). These industries have a life cycle of their own. Organisations in a nascent industry will find it hard to attract resources and may be particularly prone to failure, but if the industry achieves legitimacy and grows, the organisation draws legitimacy through association and finds it easier to attract resources. Over time more organisations enter the industry, and new industries emerge in competition. Competition for resources increases, and again organisations are more prone to failure. So an organisation in a given industry is particularly prone to failure when population density is very low, or very high (Baum and Oliver, 1992).

Although usually applied to industrial fields, a similar argument can be applied to the field of social enterprise. Thus, in addition to social enterprise failure rates being related to the industries in which they are located, they are also affected by changes in the field of social enterprise. Initial policy enthusiasm for social enterprise can be dated to the formation of Social Enterprise London in 1998, and its close links to decision makers within the Labour party (Teasdale, 2011). Subsequent to the neighbourhood renewal unit report *Enterprise and Exclusion* (HM Treasury, 1999), and particularly following the establishment of the Social Enterprise Unit within the Department of Trade and Industry in 2001, social enterprise can be seen to have achieved legitimacy as a way of delivering public goods.

Considerable financial resources flowed from government to organisations labelled as social enterprise over the next decade (Nicholls, 2010).

From an institutional perspective one would expect that once the field had emerged, the small but growing number of self-identifying social enterprises would relatively easily access public resources by virtue of the wider legitimacy of social enterprise. Certainly the limited case-study evidence supports this view (Teasdale, 2010). The population density of self-identifying social enterprises has since increased dramatically (Lyon et al, 2010). From a resource dependency perspective (see Pfeffer and Salancik, 2003) if the share of public resources devoted to social enterprise failed to keep pace with this 'growth' one would expect the failure rate of social enterprises to rise, unless they were able to increase the proportion of their resources derived from private trading or from grants and donations.

This perspective is helpful in understanding how social enterprise failure rates may change over time, but does not help us understand why some social enterprises in a given industry fail while others succeed. Statistical approaches have identified that small and / or newly established organisations are more likely to fail (Mellahi and Wilkinson, 2004). Similarly we know that organisational failure rates vary geographically, the implication being that institutional environments are localised. Amin et al (2002) show that local political and economic circumstances play a major role in shaping local social economies. It is reasonable to suggest that social enterprise failure rates vary geographically. However there is still insufficient data to permit more detailed exploration (Buckingham et al, 2011).

Whereas deterministic approaches see failure as primarily determined by industry or field, voluntaristic approaches place more emphasis on the role of boards and chief executives (Mellahi and Wilkinson, 2004). These approaches dominate the limited third sector failure literature. At their simplest they are the mirror image of the heroic success stories which dominate the early (business and management school) literature on social

enterprise (Nicholls and Young, 2008; Dey and Steyaert, 2010). The flipside of this heroic success has been characterised as delinquency or incompetency, the implication being that a properly-run organisation will not fail (Gibelman & Gelman, 2001).

Although academic literature on social enterprise failure is conspicuous mainly by its absence (a small number of relevant studies are discussed later in this paper), the social enterprise policy and practitioner literature is dominated by tales of individual success stories. A report commissioned by the Scottish Government to help 'establish the success factors for establishing a thriving social enterprise' concludes the 'traits' of successful social enterprises are similar to those of private sector businesses. According to the authors:

> 'This reflects the fact that to be successful, social enterprises need to be successful
> businesses' (Coburn and Rijsdijk, 2010 p9.)

Their review of the literature suggested that where social enterprises do fail, this is often attributable to factors specific to the organisation. Thus failure is related to size, lack of resources, finance and funding issues, a lack of qualified staff, inadequate premises and cash flow difficulties (Coburn and Risdijk, 2010 p19). The lessons for organisational learning would seem to be: grow; bring in sufficient resources and qualified staff; acquire adequate premises; and ensure a strong cash flow.

Of course conceptualising research into organisational failure necessarily involves oversimplification. Some academic accounts of failure focus on how organisations respond to changes in the wider environment in an attempt to go beyond the structure / agency dualism implied by determinist and voluntarist perspectives. For example, Mordaunt and Cornforth's (2004) study of the role of nonprofit boards in responding to organisational crisis recognises that the causes of failure cannot be located solely in either the internal or external environment. Therefore researching failure necessitates exploring the interaction between the organisation and its wider environment.

Introducing the Case

EA was established in May 1993 (See Table 1) as a church and community response to sudden mass unemployment in the dominant local industry. EA was a registered charity and a company limited by guarantee, incorporated in April 1998. Two of its `connected bodies` were companies limited by shares to act, respectively, as vehicles for sustainable trading and to hold and develop property. Other bodies were registered as different mixes of charity, company limited by guarantee and cooperatives.

Several key staff, including the chief executive (CE) and deputy shared professional backgrounds in youth work. Local churches were one of the main sources of the six to eight board members and reinforced a strong commitment to a social mission. The original elements of this social mission were to enable young people to 'take their places as valued contributing members of the community', and to assist young people 'into full employment' (EA Annual Report 1993-4).

The first fully EA-led project began in 1995. Thereafter, rapid growth took place, with a furniture workshop, provision for the homeless, catering training, and environmental activities forming the main activities. In April 1997 a total income, of £80,000 from twenty two sources, supported two or three workers and equipment for a furniture workshop. By August 31st 1998 the income had risen to £400,000. The existing mix of grants from charitable trusts and local authorities was complemented by four European grants totalling £325,000.

Overall income and the revenue mix remained stable for the next three years. In 2001-2002 a grant of £350,000 from the then Department for Education and Science increased overall income to over £750,000. In September 2003, a grant of £1.3 million was awarded by the Heritage Lottery Fund (and paid over the following three years), for the restoration of a

nineteenth century hall to serve as a community hub as well as the home for previously dispersed EA projects. At this time the CE and deputy aided by between eight and ten administrative and managerial staff coordinated up to thirty project workers.

Also in 2003 expenditure overtook income (which fell to £550,000). The 2002-03 Annual report set out a five year goal of achieving 'seventy percent self-sufficiency.' At best, self-sufficiency (trading income) from sales of furniture and contracts with secondary schools, social services departments and the Probation service never accounted for more than 25% of total annual income, and EA's total funds (assets minus liabilities) declined in each subsequent year. At the end of the five-year period, the CE and deputy had been arrested following allegations (later found unproven) of financial irregularities and EA had been liquidated following 'a pattern of loss making activities, significant creditor liabilities and a lack of robust accounting systems' (Directors report to creditors, 2007.) This would appear a simple description of managerial and governance failure. However an academic report into social enterprise in Steeltown emphasised that any evaluation of success or failure needed to look beyond specific organisational policy and practice. Steeltown was allegedly 'different' because of 'geographic isolation, industrial history, demographics and collapse of community support groups' (Simmill-Binning, 2007: 9.)

Steeltown

During the lifetime of EA, Steeltown consistently experienced declines in employment particularly in the very large manufacturing company that dominated the local economy. Male unemployment at the time of EA's collapse was more than three times the national average, yet both the Labour-controlled local authority and the large corporate employer demonstrated their own failures to adjust to inherently complex economic and social problems.

From the early 1990s, the LA attempted to bend job creation and regeneration towards the poorest. Yet its 1999 strategic plan announced that it had only just begun to prepare a borough-wide strategy for community-based economic development. Three years later, one of the consultancies hired to facilitate these initiatives concluded (as part of its evaluation of a £5.6 million Single Regeneration Budget) that, despite the declared commitment to the voluntary and community sectors, there was no common agreement on what constituted a community enterprise; the creation of new jobs within the third sector was very limited; and the 'hard to reach' were not being reached (interview with Steeltown principal strategy and regeneration officer, November 2002).

As well as this failure of the local state, there were also signs of market failure in Steeltown. As EA entered liquidation, the largest employer in the town was reported as being four years late and £1 billion over budget on its latest construction project (National paper, May 2007). An article in the local newspaper cited an Institute for Public Policy Research report showing that Steeltown had only 155 VAT registered enterprises per 10,000 population, as compared to a national average 306 per 10,000 population. By way of comparison the worst performing area in the UK, South Tyneside had 128 enterprises per 10,000 population (Local paper, January 2007).

To complete a brief review of Steeltown's sectors, mention must be made of EA's peers in the third sector. It would appear that social enterprise inter-organisational relationships were 'weak' (Simmill-Binning, 2007). The LA's 1999 strategic plan noted that:

> '…there is much evidence that this sector is under-developed. According to the rule of thumb adopted by the Community Development Foundation, Steeltown should have about 180 community groups or organisations – the actual figure is probably half that.'

As EA neared complete liquidation, a major infrastructure organisation went into administration amidst inquiries into financial irregularities and the local social enterprise network concluded its three-year (£600k) programme by announcing it had established only 20 new jobs.

It would seem then that Steeltown was a place where the 'transformative potential' of social enterprise to regenerate communities was much needed (see HM Treasury, 1999), but that the local economic and political conditions conducive to a thriving social economy (Amin et al, 2002) were conspicuously lacking.

Methods

Prior to financial collapse the lead author had been researching EA for five years as part of two overlapping research projects. In the first instance EA had formed one of the cases in a major national study exploring the relevance of social enterprise to the voluntary and community sector (reported in Pharoah et al, 2004). Cases were selected as examples of 'successful' social enterprises as defined by their peers. Data was collected through interviews conducted with core managerial and administrative staff (six individuals on several occasions), three project staff, and a trustee, and observations of day to day (and less usual) activities. Documentary data collected (and used for this paper) included annual reports, local newspapers, promotional material, and accounts. External interviewing involved three local authority officers and a worker from the Development Trusts Association. Key themes deriving from the data were the relationship between organisational structures and values; tensions between social and economic goals and the consequences of these tensions.

A follow up study conducted in 2005 (reported in Russell and Scott, 2007) explored tensions between social and economic objectives with particular reference to organisational learning. Here data was collected through intensive interviewing of the CE and deputy, and a

middle manager who has acted as informal research gatekeeper over almost a decade. All were interviewed twice. Further documentary materials were collected. Key themes explored in this study were the perceived strengths and weaknesses of current developmental activity, and tensions between 'traditional approaches' and experiential emphases to learning. Although the studies were not designed to study failure, the data collected has been retrospectively repurposed.

The third (unfunded) phase of research arose because of, and focused explicitly on, the failure of EA. The earlier research gave the lead author a unique insight into the background to EAs collapse and a unique opportunity for research access. Freed from the constraints of funded research and from the obligations of field research (where negative critiques may be modified to preserve relationships), this phase of research developed a greater emphasis on the wider political and economic environment. The primary aim was develop an understanding of why EA failed. However, following closure of EA, access to data was necessarily uneven. Neither the CE nor the deputy agreed to be interviewed. Therefore nearly all contact centred on the former gatekeeper. Data collection was mostly informal over a four year period. The gatekeeper regularly sent EA documents and press cuttings, and regular email contact occurred. This was supplemented by biannual meetings, or informal interviews. Once the liquidation process had been completed, the individual professional who had worked with EA over a number of years, and who had been acting on EA`s behalf as an `undertaker`, agreed to a sequence of telephone discussions and interviews. These eventually led to a formal interview in September 2011. Here a topic checklist was agreed in advance as preparation for a two hour recorded interview. This included issues around why EA failed, the Community Hall project and the processes of liquidation. The transcript was then discussed via email and telephone conversations.

In total 35 formal interviews and many more informal exchanges were conducted over the three research phases. The approach to analysis has been mainly inductive and has involved the collection of different explanations for failure from media reporting and those provided by the gatekeeper. Making sense of these explanations involved developing an understanding of the academic and policy literature pertaining to social enterprise failure, and following advice from peers, the wider organisational failure literature. These explanations were then discussed and refined by the two authors and initial conclusions presented to research participants. Following ongoing dialogue between the lead author and research gatekeeper these explanations were further refined and presented to the EA 'undertaker'. This process continued until some approximation of a shared understanding was reached. The following section outlines this shared understanding. It is necessarily linear in form, when of course the reality was much messier and involved continually re-visiting emergent concepts (explanations of failure), data and academic literature.

Why did EA fail?

Analysis of financial data released after the liquidation process reveals that EA had been spending more than it had been receiving from around 2003. It would appear that while income was falling EA failed to sufficiently reduce costs to accommodate the shortfall. Moreover it would seem that EA had been cross subsidising projects with grants earmarked for other projects. At first glance this points to a simple story of financial incompetence. However a wider understanding of the circumstances concerning the 'rise and fall' of EA demonstrates a simple individualistic story of management and governance failure is an insufficient explanation for failure.

Impression Management and the rise of EA

EA's rapid growth occurred over a period of time when the local area was desperate for success stories to counteract the wider economic gloom caused in part by the decline in

employment by the dominant local employer, and overlapped with the initial policy interest in social enterprise. EA was regularly mentioned in regional and national newspapers and the national social enterprise press during this period. The community hub project was officially launched by a high profile member of the royal family. The media covered visits to EA by the then Home Secretary, while EA was held up as an example of social enterprise good practice in at least two high-profile government publications, as well as in national newspapers and publications by national social enterprise support organisations.

It would appear that the CE was making the most of his links to the royal family and local landed gentry to generate publicity. According to a national newspaper: 'EA's good reputation feeds its momentum' (May, 2001). Perhaps the legitimacy conferred by official visits from the royal family and government assisted with grant applications at a time when many funding bodies were keen to be associated with 'successful' social enterprises?

It was sometimes claimed that EA had misused the mass local redundancies as a way of gaining grants. According to one local political actor EA 'rode on the back of ten thousand redundancies for too many years and got away with it'. The implication being that subsequent outputs were not able to match any original claims concerning its proposed responses to unemployment. Even if such a criticism were partly true, it should be noted that no local agency, whether state, commercial or third sector, has been able to make responses of an appropriate scale to match these problems.

A consistent strategy?

A study of the successful grant applications revealed few signs of a coherent strategy. It would appear that applications were sent to almost anybody likely to fund EA. Grants were for new and seemingly unconnected projects, for example a furniture workshop, to redevelop a community hall, a catering facility, a cycle repair shop, and a 'portfolio of environmental action'. However a common thread links all these applications. In each case grant funding

was supplied to help EA develop a sustainable business. Perhaps these were the unwritten rules of the game? Funders may be desperate for success stories so organisations like EA construct them. Rarely was close attention paid to the detail of the grant applications. In most cases EA supplied a 'business plan'. But according to one interviewee: 'business plans were written not to take you somewhere, but to justify a funding bid'. And EA usually delivered on promises to funders – each of the various projects was set up eventually.

It later became clear that reporting strategies for external audiences and administrative processes for internal coordination systematically demonstrated high degrees of fluidity. In 1998 the first strategic plan listed twelve projects. Three years later this total had apparently risen to 18 projects with 102 employees. However it proved difficult to locate all these projects during the first phase of the research. An interim report (Scott, 2003) identified 'enthusiastic reporting', whereby a project became listed whether it was active; 'temporarily inactive'; or even if it had recently closed. One year later, subsequent employee interviews identified that, of twenty listed projects, only eleven were actually active. When questioned on these features, the CE suggested that this was 'normal' practice in organisations such as EA:

> 'If you`re going to challenge people, be socially inclusive and so on, then you`ve got to have something like this `pre-historic swamp` as a seed-bed to grow these things. That means it has to be uneasy, uncomfortable, not contrivedly so...by its very nature' (cited in Pharoah et al, 2004: 47).

However according to the EA 'undertaker' interviewed in 2011, funders were effectively paying for the previous project, and contractors were consistently paid late. The EA strategy sometimes seemed to be act first and then seek a grant to pay for it later.

The rules of the game?

A world whereby grants for new projects cross-subsidised existing projects and creditors were paid late seems evidence of financial incompetence. How did EA get into this situation? One example suggests again that this may have been the rules of the game in which EA was involved.   EA was commissioned to deliver various social fund contracts. However the failure of the government regional agency to pay on time caused early cash-flow problems which, if addressed earlier, might have made some difference to the eventual failure of EA. For example,

> '… the £180k (approx) owed by the Government Regional Agency for completed
> Social Fund contracts during 1999 – 2001. After nine audits and dealing with twenty
> three desk officers, some of the money was paid in 2006, by then it was too late'
> (Interview with EA gate-keeper, 1/5/08).

It would appear that early in the life of EA the CE had to adapt to a world where grants and contract payments arrived late. Rather than borrow from banks to cover short (or longer) term cash flow problems, the response according to one interviewee was to adopt this 'smoke and mirrors approach.'

A community hub too far?

The CE continued his previously 'successful' strategy of bringing in new grants to pay for projects. In 2003 he had his most high profile success. The CE was made aware through his social networks that Steeltown had received comparatively less lottery funding than similar towns, and a bid would be looked upon favourably. Again a business plan was hastily developed, to rent out space to community groups and provide a single home to EA's different projects. A £1.3 million grant from the Heritage National Lottery Fund
 was secured to purchase and redevelop a listed building as a community hub. Whereas previously it was possible to cross subsidise projects and hide financial difficulties, a single grant of £1.3 million concentrated risk. While the community hub was developed more or

less on time, further funding had to be secured to finish the development, and two grant making trusts secured a charge against the building, effectively meaning it could not be sold by EA. The community hub was officially completed at the end of 2005 and opened in 2006.

In 2006 the CE was awarded 'regional social entrepreneur of the year'. Although not then in the public domain, the 'accounts' show that in the previous financial year EA`s total funds had fallen from £165,000 to less than £10,000. In an ominous media interview in December 2006, the CE noted that 'delivering training on a budget like ours is a constant challenge.'

What was not reported was that the CE was involved in a battle with his trustees at the time, which saw the CE suspended in early January 2007. Later that month the CE resigned, and on the same day the three remaining board members also resigned. A later report to the creditors revealed that at the time EA had accumulated financial losses of almost £500,000. This did not include the £1.7 million of charges on the community centre, but did include £150,000 of loans taken out by the CE and deputy and secured on their houses (which they subsequently forfeited) to keep EA afloat.

Poor Governance

The board of trustees may not have had the financial skills or time necessary to recognise any problems. Moreover, according to interviewees, the CE found it difficult to devolve control (whether upwards or downwards). One explanation of EA's subsequent failure is, therefore, that it's administrative and governance structures had not been sufficiently developed to meet the demands of its period of expansion and transition to a social enterprise. Perhaps replacing the entrepreneurial CE with somebody better equipped to develop organisational systems and processes might have averted failure? But this explanation also ignores the wider context within which EA was situated.

First, there may not have been sufficiently skilled individuals in Steeltown willing to join the board of trustees. Certainly it proved difficult to attract suitably qualified staff to manage the various projects in a paid capacity. To some extent the CE sought to compensate for this by paying for professional advice. But as noted by a 'rescue worker' sent from the Development Trusts Association, the quality of local professional advice was poor. Indeed in one example EA paid a recruitment agency £7,000 for recruiting a Finance Officer, who was subsequently unable to gain sufficient access to the information held by the CE. Second, who would have decided the timing of replacing the entrepreneurial CE? It is difficult even with the benefit of hindsight to pick a moment in time when the CEs skills were no longer appropriate.

A new board was appointed at the end of January 2007. In early February the local newspaper reported that the CE and deputy had been arrested in connection with financial irregularities, and that on the same day tax officials had announced they would take EA to the High Court. Following legal advice that EA was technically insolvent the new board (aided by the Development Trusts Association) began a search for ways of keeping EA projects alive. Analysis of this search sheds new light on the relationship between EA and its wider environment.

External environment

The local authority had been criticised in an academic report as 'unhelpful to social enterprises' (Simmill-Binning, 2007). However it had previously donated a small terraced house and small sums (usually less than £10,000) to EA but felt unable to offer practical help to save the community hub. According to an interviewee involved in the 'rescue process' the local authority had previously 'rescued' a local charitable trust and were not prepared to be seen as lender of last resort to the third sector. Additionally the local authority had recently

been through a very public scandal involving their management of one of their own buildings. Perhaps as elected politicians they were not prepared to take on further risk.

Another explanation for the local authority refusing to help EA provided by one interviewee was that the CE was seen as 'upper class' with links to the royal family whereas the local authority was Labour controlled and had grown from hierarchies and union solidarities linked to the dominant employer. The CE had previously not established consistently strong links with the local authority and preferred to draw upon existing social networks to attract funding from elsewhere:

> 'I think they (policy makers and politicians) regard us with suspicion, possibly as threatening because we don't necessarily work in traditional ways. We're relatively uncontrollable because of our extra-local resourcing' (CE, cited in Scott, 2003.)

It is likely that these networks beyond Steeltown were as much symbolic as the source of continuing finance and could not be easily drawn upon during the high-profile investigations. It should be noted that no evidence of financial irregularities was uncovered during the subsequent police investigation.

Sustainability of projects

EA may never have got into debt if the various projects funded had become financially sustainable. But most of EAs projects never became sustainable. Perhaps they were ill-advised from the start? Certainly a plan to train unemployed people in catering and win a contract to supply all the school meals in the area seems a little ambitious with hindsight. But the business plans certainly appeared viable to those funding EA. We suspect this relates to a desire to believe in social enterprise generally, and in particular that EA could be successful in turning round the labour market in a deprived town.

Given the systemic limitations of state, market and third sector in Steeltown, the financial collapse of EA might have been more easily predicted. However, a singular focus

on the eventual financial failure of EA necessarily neglects successes during its lifespan. The research upon which this paper draws did not attempt to evaluate the social or economic outputs of EA. Nonetheless, it is worth adding here that a positive legacy of EA was the emergence of eight micro-businesses employing at least 20 people. That is more jobs than were created by the aforementioned social enterprise network. This of course does not include the people employed or placed into employment by EA during its lifetime.

Some people employed by EA might reasonably be expected to have negative opinions of the former CE. However, buried deep in the letters pages of the local newspaper, testimonies from former staff can be found:

'I was given an opportunity to set up and deliver a project to support young people who were struggling and lost their way in life. The young people kept coming back for more and over a five-year period I supported more than 300 young people, teaching them culinary skills and raising their self-esteem and hope for the future. All this piece of magic took place thanks to [EA]. [the CE and deputy] are two of the most caring and loving people I have ever come across. I would like to thank [the CE and deputy] for their support and wish them every success' (Local paper, May 2008.)

The eventual failure of EA also gave rise to significant opportunities for others. The liquidators charged a fee of £80,000. By the end of 2008 the community hub had been sold at a London auction for £110,000. Eight months later the first property developer sold the building on to a second developer for £500,000, whilst remaining in place as the manager of the building. A public asset, which represented huge investments of public money, low paid employee and volunteer energy, had not been retained for public use. A final postscript came from the local newspaper. One local charity and former tenant felt the double-sale of the hall to be 'disgusting', whilst an estate agent concluded 'you have to admire the people that bought it because they made a fantastic investment.'

This case presents a number of nascent explanatory perspectives on social enterprise failure which give rise to four particular questions in particular. First, was EA ever a social enterprise, at least as characterised in the policy and academic discourses of financially sustainable businesses trading for a social purpose? Second, while the CE and board were clearly competent at managing impressions in order to secure grant funding, were they sufficiently competent to financially manage a growing enterprise? Third, how realistic was it to expect a social enterprise to succeed in creating employment in a deprived area at a time when the major private sector employer and local authority were failing to achieve this objective? Fourth, and perhaps most importantly, are financial and social success perhaps mutually exclusive goals in places such as Steeltown? Of course a single case is an insufficient basis on which to generate firm conclusions. But, our case study does provide the opportunity to extend the existing literature on failing social enterprises.

What are the implications for our understanding of social enterprise?

> 'The only crime [the CE and deputy] committed was ruling with their hearts instead of using their business management skills' (Former employee, Local paper, July 2008.)

This article can be only a modest first step towards a more detailed understanding that takes fully into account the social, economic and political landscapes across which social enterprises must operate, these landscapes being wider and deeper than single organisations. It will always be important to construct an ecology of influences and interactions when seeking to explain and respond to different dimensions of failure. This necessarily complicates the picture. As our case has shown, once the wider ecology is introduced it is no longer sufficient to say, for example, that EA failed because of poor governance or financial incompetence.

The policy literature presents a simplified picture of social enterprise as:

'a business with primarily social/environmental objectives, whose surpluses are

principally reinvested for that purpose in the business or community rather than

mainly being paid to shareholders and owners' (DTI, 2002: 8).

This definition implicitly assumes that, as businesses, their financial sustainability derives

from trading to generate surpluses, as distinct from their grant-dependent cousins in the

voluntary and community sector.

EA never derived more than a quarter of its annual income through trading, though it

did describe itself as a social enterprise. Perhaps this is evidence of delinquency or

incompetence? However, EA was not alone in claiming to be a social enterprise. Secondary

analysis of the 2008/09 *National Survey of Third Sector Organisations* data found that 48%

of third sector organisations claimed to fit the DTI social enterprise definition, equating to

around 82,000 organisations. Few of these received more than half their income through

trading (Lyon et al, 2010). There appears to be a stark distinction between the image of social

enterprises presented in the policy literature, and the 'reality' on the ground (Parkinson and

Howorth, 2008). While social enterprises may be presented as sustainable businesses, for

most the reality is more akin to that faced by EA, a constant struggle to bring in income

through a mix of trading and grants (Amin et al, 2002) in order to mitigate the effects of

social, economic and political change (Dey and Steyaert, 2010).

Indeed, usage of the title social enterprise may be a deliberate strategy to attract grant

funding. For example, a study by Teasdale (2010) found that a manager of one organisation

selectively used the term social enterprise to attract grant funding from resource holders.

Certainly EA's income increased dramatically following the adoption of the label social

enterprise by themselves and by infrastructure bodies keen to be associated with this

supposedly new and innovative approach to tackling social problems.

But self-presenting as a social enterprise in order to attract grant funding may not be a sustainable funding approach in the long term. A study of failure in social enterprises by Seanor and Meaton (2008) found that all actors in the four cases studied utilised this chameleon-like nature to draw upon financial resources available to organisations that were presented as social enterprises. However, the failure of some cases was attributable in part to resource holders starting to believe the social enterprise rhetoric and pushing organisations away from grant funding without recognising that they could not hope to be sustainable from commercial revenue alone (Seanor and Meaton, 2008).

Amin et al. (2002) note the difficulties for many social enterprises in generating sufficient commercial revenue to be financially sustainable over time. They argue convincingly that areas marked by social exclusion are unable to sustain a thriving social economy. A supportive political environment can help counter-balance a lack of market opportunities through the provision of grants or contracts to deliver government services. But again, as we have seen, the political environment at the local level in Steeltown was not consistently conducive to the development of local social enterprises and third sector organisations.

This raises the question as to whether social enterprises in areas such as Steeltown could ever hope to succeed as sustainable businesses while maintaining a commitment to social goals. The more critical academic literature would suggest not. Dart's (2004) inductive case study of 'Community Service Organization' (CSO) - a Canadian nonprofit trying to become more 'business like' - found that there were inherent tensions between social and commercial objectives across several programmes. For example, provision of financial counselling to people with mental health problems was abandoned as it could not be made commercially viable. This tension between social and economic objectives is not unique to

CSO, but rather may be seen occurring across a wide range of social enterprises (See for example; Russell and Scott, 2007; Seanor and Meaton, 2008).

Indeed, it may be that those social enterprises which 'succeed' – that is become sustainable through trading - are those that move away from their original social values and goals (Amin et al, 2002; Dart, 2004). EA's failure might plausibly have been a consequence of its failing to prioritise economic considerations over and above social goals, especially given its social, economic and political environment. Rather than reduce expenditure (and social outputs) as a response to declining income in 2003, EA sought to cover any shortfall through 'borrowing' from future grant income. Other studies of social enterprises also suggest that attempting to tread a more pro-social approach to balancing social and commercial considerations might be a cause of financial failure (Tracey and Jarvis, 2006, 2007; Twersky and Lanzerotti, 1999).

Thus, many organisations termed 'social enterprises' face an inherent tension between their twin objectives, in that their social and enterprise (i.e. economic) goals might not be reconcilable (Blackburn and Ram, 2006; Mozier and Tracey, 2010). This in-built contradiction might be recognised and actively managed, but it is rarely sufficiently harmonised to achieve sustainability over the long term. When chief executives of social enterprises describe themselves as `chameleons` they may be attempting to articulate perhaps the most crucial dimension of their role. That is the need to constantly develop an understanding of the size, shape and dynamics of their operating environment, and then respond creatively to the changes within it.

Where there is an acceptance that complexity and contradiction are recurrent elements in social enterprise then the systems for training and support can be re-shaped accordingly. When organisational failure is identified as likely to reflect structural features of at least

partially failing towns, economies and civil societies then social enterprise actors can become both more realistic about their fears and yet more ambitious about their hopes.

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Table 1. The rise and fall of EA (1993-2010)

Dates		Notable High and Low Points.
1993	May	EA established as a response to mass unemployment.
	June	First paid worker appointed (later became Chief Executive).
1995		First independent projects established.
1998		Strategic plan listed 11 projects.
	April	Registered as Company Limited by Guarantee.
	May	Date of charity registration.
2000		18 projects listed, with 102 employees. First royal visit.
2002	June	Received £400,000 grant to establish furniture workshop.
2003	April	Second royal visit. Chief Executive received MBE and awarded 'Regional Social Entrepreneur of the year'. Community Hall Project launched.
	October	Visited by Home Secretary.
2004-2006		Mounting losses. Non-payment of VAT, but this information not placed in public domain until early 2007.
2006		Chief Executive awarded 'Regional Social Entrepreneur of the year' for a second time.
2006-07	November - January	Suspension followed by resignation of Chief Executive. Police investigation launched.
2007	April	EA enters liquidation.
2008	July	Closure of community hall, later sold to a property developer.
2010	February	Liquidation process finalised.

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[i] Enterprise Action and Steeltown are pseudonyms. The case study organisation has been disguised in order to protect the identity of informants. Newspaper articles and research reports which would identify the case study organisation have been disguised.