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# The Implications of Schumpeter's Theories of Innovation for the Role, Organisation and Impact of Community-Based Social Enterprise in Three European Countries

**ABSTRACT**

Social enterprises, with strong ties to local areas and communities, have been a growing phenomenon in many European countries at least since the financial crisis of 2007-2008 and the resulting retrenchment of state involvement in welfare provision. The paper draws on the empirical findings from nine case studies of community-based social enterprises (CBSE) in three countries which were investigated in depth in our study. Our objective is to use Schumpeter's work as a lens to assess the effects of social innovation on different aspects of this type of social organisation. Thus, we aim to address the questions: (i) to what extent can CBSEs be considered as a form of social innovation and how does this innovation arise in terms of role, organisation and impact of CBSEs? (ii) What are the similarities and differences between CBSEs in the three selected European countries? And (iii) how far does Schumpeter's conceptual framework of "creative destruction" provide insights into the process of organisational change in this form of social enterprise? In doing so we identify and discuss a series of innovations in organisation, project selection and delivery and conclude with insights relating to Schumpeter's theory of "creative destruction".

**KEY-WORDS**

SOCIAL INNOVATION, ENTERPRISE, COMMUNITY-BASED SOCIAL ENTERPRISE, SCHUMPETER, CREATIVE DESTRUCTION.

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## 1. Introduction

Governments across many European countries have shown interest in developing social innovations in a variety of forms as a response to austerity and the growing disparities of income and wealth in their countries. As a result, there has been increased attention paid by academic researchers and policy-makers in Europe to the growing numbers of new initiatives emerging from civil society and what has been called “citizen-centred governance” (Barnes et al., 2008). Moreover, it has also been argued that innovative social programmes can make an important contribution to strategies of “inclusive growth” in cities (Vickers et al., 2017).

These initiatives take many forms. Some are entirely bottom-up and are completely independent of state involvement. Others involve varying degrees of assistance from central or local government or in some cases full or partial financial support from grant giving or charitable organisations. Thus from the point of view of the researcher, three important questions arise: How do new social organisations form? What if anything is innovative about what they do? And how far do the organisational structures relate to local communities and service users which is different to “mainstream” agencies? There is a further observation raised by recent research demonstrating that social innovations often arise in urban contexts where networks of residents, agencies and other interests are denser and more interactive (Brandsen et al., 2016). Hence, a high level of social capital often facilitates the birth of new forms of service delivery. In this context, Sacchetti and Campbell (2014) refer to “the bright side of social capital” to explain how social enterprise can create a space of relations and opportunities that impact beneficially on community welfare and individual well-being.

There are many definitions used to describe organisations which fall under the general heading of “social enterprise” (EC, 2015; Pestoff, 2013; Gordon, 2015, Spear et al., 2017), and which have differing relationships with their geographical location (Somerville and McElwee, 2011). These include social business, community business and businesses with a social mission. Cooperatives might be included but these are normally organisations where the members jointly own the business (see e.g. Birchall, 2013, for an extensive discussion of such member-owned business) rather than contributing to its management primarily as members, trustees, employees, or volunteers. A key dimension of social enterprise is participatory governance, which implies involving the stakeholders affected by its activities and the exercise of democratic decision-making, based on the idea of one-member/one-vote, rather than capital ownership or shareholders (Pestoff, 2013; see also Defourny and Nyssens, 2013).

This paper focuses particularly on community-based social enterprises (CBSE) which we see as a sub-set of the broader social enterprise or community business category. In line with previous research on this type of organisation (see e.g. Somerville and McElwee, 2011; Bailey, 2012; Kleinhans, 2017), we argue that CBSEs are social enterprises which operate in a defined geographical location or “community” and give a high priority to engaging local residents and businesses in the management of the enterprise and delivery of projects. This paper draws on recent research to investigate the role and organisation of CBSEs in three countries: England, the Netherlands and Sweden, and to identify similarities and differences.

In general terms CBSEs have several defining characteristics although there are significant differences in legal status, management practice and the balance between trading or commercial activities and broader social objectives. They are locally rooted in that they are often managed by local residents and define their objectives as being about meeting locally defined needs in a defined neighbourhood or community (see also Defourny and Nyssens, 2013). In this context, they are often located in areas of relative deprivation which are, or have been, the subject of recent regeneration strategies. Their trading activities are designed to generate a surplus which pays for overheads and enables them to employ paid staff (see also Sacchetti and Campbell, 2014). These activities may involve letting out space for businesses or other services, residential accommodation or cultural pursuits. They are normally accountable to the local residents and service users through a variety of mechanisms involving board or organisational membership or forms of accountability through traditional or social media. Finally, they exist to provide innovative solutions by providing buildings or assets of direct benefit to the local community, or by delivering services such as meeting space, sports facilities, nurseries or arts-orientated activities. In doing so it is often claimed that these organisations display the characteristics of “social innovation” (Tracey and Stott, 2017; see also Defourny and Nyssens, 2013; Sacchetti and Campbell, 2014). As such, “community” is not only considered as a target group, but also a key cooperative principle, both in terms of community development and in a broader perspective on cooperative action as an alternative socio-economic reality (Vieta and Lionais, 2014).

This paper draws on the empirical findings from the nine case studies of CBSEs in three countries which were investigated in depth in our study. Our objective is to use Schumpeter’s work as a lens to assess the effects of social innovation on different aspects of this type of social organisation. Thus, we aim to address the question: To what extent can community-based social enterprises be considered as a form of social innovation and how does this innovation arise in terms of role, organisation and impact of CBSEs?

The research for this project involved the selection of three examples of CBSEs in each of three European countries (England, the Netherlands and Sweden). In selecting the case studies we sought a range of examples of CBSEs which represented as far as possible: the date at which they were established; their geographical location with particular reference to areas with above average levels of deprivation; and their mix of trading and socially orientated activities. Having first reviewed the national policy context and support mechanisms in each country, detailed semi-structured interviews were carried out with key stakeholders who were paid staff, board members and volunteers. Seminars were organised on two occasions to enable academics and practitioners to review the findings and to discuss the implications.

The next section discusses some of the theoretical concepts and key factors which set out the context in which CBSEs might be located. The third explains the different definitions and organisational forms of CBSEs in the three countries and the main support organisations. The fourth section reviews a sample of projects carried out demonstrating how CBSEs go about creating a sustainable mix of trading and non-profit making activities as hybrid organisations (Doherty,

Haugh and Lyon, 2014; Skelcher and Smith, 2015). Finally, we draw out some conclusions regarding how far terms such as “entrepreneurialism” and “social innovation” might be applied and to speculate whether or not there is evidence of a convergence between CBSEs in the three selected European countries. A summary of the case studies is available in the appendix.

## **2. Understanding social enterprise from a Schumpeterian perspective**

It is Schumpeter's work on innovation and change in the twentieth century market economy which first raised questions about enterprise, innovation and entrepreneurialism. His primary focus was on the dynamics of the private sector but his approach can equally be applied to the social sphere and our understanding of “social entrepreneurship”. Schumpeter's conceptual starting point was that:

“The fundamental impulse that sets and keeps the capitalist engine in motion comes from new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organisation that capitalist enterprise creates”. (Schumpeter, 1976: 83).

He goes on to describe the process by which change takes place from within arising from the opening up of new markets and organisational change. It is this process of “industrial mutation” which “incessantly revolutionises the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.” (Schumpeter, 1976: 83, original emphasis).

The growing influence of Schumpeter's writing has led to an on-going debate about the meaning of “entrepreneurship” and how it might be applied to what have been called social-purpose organisations. These have multiplied rapidly in recent years and have been characterised by an increasing blurring of boundaries of organisations operating in advanced twenty first century economies, as well as evidence of greater collaboration and boundary spanning (Van Meerkerk and Edelenbos, 2016). It also reflects the gradual contraction of state funding and the imposition of austerity measures in response to the financial crises of 2007-2008 (see also Birchall, 2013). As Dees, Haas and Haas (1998) note:

“In addition to innovative not-for-profit ventures, social entrepreneurship can include social purpose business ventures, such as for profit community development banks, and hybrid organisations mixing not-for-profit and for-profit elements, such as homeless shelters that start business to train and employ their residents....Social entrepreneurs look for the most effective methods of serving their social missions”. (Dees, Haas and Haas, 1998: 1)

Thus, the rapid rise in the number of organisations claiming to be in all or part entrepreneurial, as defined by Dees and colleagues (1998), in their approach to social enterprise is considerable and is fertile territory for research. Many are hybrid organisations (Doherty, Haugh and Lyon, 2014), which set out to achieve sustainability by balancing trading activities with non-trading social

objectives. Preconceptions about social value are common but need to be critically examined. As Dey and Teasdale (2015) point out, there is a darker side of those businesses claiming to be social enterprises in order to increase their commercial advantage.

All our case study organisations were set up primarily to pursue locally defined and usually social objectives. The economic, trading objectives were seen very much as mechanisms that enabled the social or environmental objectives to be delivered. Thus, the trading functions were about attracting an income stream from a mix of sources. These could be grants or loans from state or charitable sources, the delivery of government contracts, or income derived from the use of buildings or other facilities in the ownership of the CBSE. In these cases, the social entrepreneur function is to identify new opportunities and assets where economic value could be created in order to deliver social value to the locality (see also Sacchetti and Campbell, 2014). In the context of social enterprise, Defourny and Nyssens (2013: 18) refer to the “social innovation school of thought”, which defines entrepreneurs in the non-profit sector as “change makers”, as they carry out innovative combinations in terms of new services, new quality of services, new methods of production, new production factors, new forms of organisations or new markets. Dees and colleagues (1998) identify five criteria for an “idealised” definition of the social entrepreneur as change agent in the social sector:

- Adopting a mission to create and sustain social value (not just private value);
- Recognising and relentlessly pursuing new opportunities to serve that mission;
- Engaging in a process of continuous innovation, adaptation and learning;
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created. (Dees, Haas and Haas, 1998: 4)

All our case studies demonstrate these activities to varying degrees but much depends on local circumstances and the range of opportunities. For example, in England and the Netherlands, the origins of CBSEs can be traced back to previous or recent funding regimes arising from a variety of urban regeneration programmes (Bailey, 2012). A further element of contingency (see Donaldson, 2001) is that most CBSEs depended and remain dependent on varying levels of state funding or contracts to deliver social services or beneficial leasing arrangements on land and buildings. In Plymouth, England, where one of our case studies is located, the local authority had a very positive attitude to promoting social enterprise by transferring land and buildings to social enterprises at below market values. All our case studies consistently behaved in an entrepreneurial way by seeking new opportunities to expand their activities where the level of risk was acceptable and the sustainability of the organisation could be maintained. A strong set of values around issues of community empowerment and control of resources was also asserted and this helped to motivate the local community and to attract volunteers. But these values have to be carefully balanced against the need to generate an income from trading. Thus a further defining characteristic of CBSEs is the need to balance two institutional logics, that of the market and socially orientated non-profit projects (Thornton and Ocasio, 1999).

One challenge in defining “social entrepreneur” is that it is very difficult to identify how far this is a role performed by one person or an expression applicable to the organisation as a whole. In

our research, there was evidence of this role performed by the Chair of the management board or an appointed director, or whether different roles were so well integrated that it was impossible to identify a single source of entrepreneurialism. In England the role was normally performed by the director although he worked very closely with board members and always ascertained the views of the wider membership before taking on any new commitments. On the other hand, in the other countries there is less of a cult of the CEO as “inspired leader”. In Sweden, it is normal for the chairperson to take the lead and in the Netherlands it can be either role which is the “motivating force”.

Once the strategy, business model and values of the social enterprise are established it tends to follow a path dependent (Kay, 2005) pattern of operating within certain policy areas where it can acquire expertise and a track record. Occasionally, however, opportunities arise where a change of direction is considered necessary and desirable in order to open up a new trading opportunity or to provide a new service of value to the locality. This might arise where a new asset can be acquired or a new source of funding becomes available. For example, the Goodwin Trust was able to secure additional funding for a variety of arts-related activities because in 2017 Hull was designated the UK City of Culture, part-funded by central government. Thus, certain choices and internal or external events may lead to a form of “creative disruption” which changes at least part of the development trajectory and activities of the CBSE. This reflects the need for CBSEs to maintain a set of core values to explain and justify its primary objectives whilst also being very aware of changes in the external environment which may open up new opportunities for sustainable growth. These opportunities may be new funding opportunities, a chance to acquire new assets or take on new contracts, or to adapt the organisation to changing local social conditions. Thus, we suggest that Schumpeter’s concept might be more appropriately called “creative *disruption*” rather than “creative destruction”.

### 3. CBSE definitions and support in the Netherlands, Sweden and England

#### 3.1 Definitions of CBSEs

There is no official definition of social enterprise in the Netherlands. In academic, policy and practice discussions, a range of terms are used, such as *sociale ondernemingen* (social enterprise), *sociale firma's* (social firms) and, to a much lesser extent, cooperatives. The concept of *maatschappelijke organisaties* (societal organisations) is also widely used, but it refers to a broader set of organisations, focusing on the “public good”, including public benefit companies, housing associations and health and educational institutions (EC, 2014a). As part of an EU-wide effort to map social enterprise, the country report on the Netherlands (EC, 2014a) distinguishes broadly between several types of social enterprises with different legal statuses:

- NGOs, foundations and associations with revenue generating activities, social aims and participative models: could be considered social enterprises if they have clear social aims and revenue generating activities (market activity);
- “Social” cooperatives: generally to be considered social enterprises as they are cooperatives pursuing a social mission, not serving the interests of their members;
- Mainstream enterprises emphasising their social mission in business models: if having a social aim and caps on profit-making they would fit the spectrum of social enterprises;
- Work integration companies: operating under a variety of legal forms but under a given number of existing laws providing the legal framework for their existence, generally considered to be social enterprises;
- Semi-public enterprises with societal aims: according to some they should be considered as social enterprises and might meet most of the criteria.

In Sweden there has been a long tradition of strong popular movements (Berglund, Johannisson and Schwartz, 2013) such as labour unions, free churches, sports associations, village associations, alcohol-related issues and youth movements but a social enterprise sector that asserts stronger business logic has only emerged comparatively recently (see also Defourny and Nyssens, 2013). There is no specific legal form for social enterprises in Sweden; they can choose which ever form is most appropriate for their activities. In general, it is possible to divide the organisational form between business enterprise (sole trader, trading partnership, limited partnership and limited company) and associations (economic and not-for-profit). Where the most common forms seem to be economic association, these are defined as not-for-profit associations and private limited companies (Tillväxtverket, 2012). Some social enterprises also use several legal forms so as to separate the more social mission-driven activities from those with an economic or trading purpose (EC, 2014b). Definitions of “social enterprise” and “work integration social enterprise” (WISE) are sometimes used interchangeably by government bodies and other supporting organisations. This is not unique for Sweden. Pestoff (2013) has observed that WISE has become equivalent to and sometimes even the official definition of social enterprise in certain EU countries. In Sweden, the Swedish Agency for Economical and Regional Growth has the responsibility to design and implement a national programme that will stimulate the creation and growth of WISEs in cooperation with the Swedish Employment Agency (Arbetsförmedlingen). Association enterprises with a particular focus on community development in rural areas can also receive support in the form of project funding from the Swedish Board of Agriculture. These are not only social enterprises but more often community development enterprises.

In the United Kingdom there is a long history of a variety of forms of social enterprise and Spear et al. (2017) set out in detail the wide range of types of social enterprise models and their evolution under different government regimes in the UK since 1998. A sub-set of the wider category is community enterprise which relates closely to our definition of CBSEs in that they are locally rooted and managed.



There is no nationally agreed definition of social enterprise or CBSEs but Locality, an umbrella organisation for community business in the UK, provides this definition:

“Community enterprise is a significant sub-sector within the wider social enterprise sector. It shares the same definition as social enterprise: an organisation trading for social purpose with profits reinvested rather than going to shareholders. But a community enterprise is more specific in that it is based in, and provides benefits to a particular local neighbourhood or community of identity. A community enterprise is owned and managed by members of that community. It is an organisation run by a community as well as for a community”. (Locality, 2016)

A survey commissioned by Power to Change suggest a steady increase in the number of community businesses in England reaching 7,085 (including village halls) in 2016 with assets to the value of GBP 2.1 billion (Hull, Davies and Swersky, 2016). There are several legal frameworks which they can adopt and these include: company limited by guarantee, community interest company (CIC), and industrial and provident society. After a legislation change in 2014 the latter are called registered societies and become a community benefit society or cooperative society (FCA, 2014). Many also qualify for charitable status which brings tax advantages.

### *3.2 Support for CBSEs on various levels*

In each country there are a number of membership and support organisations operating at the national level. Some also offer grants or assist CBSEs in accessing funding from other sources. In Sweden, Coompanion is a corporate advisor for cooperatives which is supported by the Swedish Agency for Economical and Regional Growth and regional co-financing. It offers free advice to cooperatives. The majority of their counselling is provided to WISEs. It provides what is referred to as “innovation checks” that can be worth up to SEK 100,000 per cooperative. The cooperative should have a minimum of three and a maximum of 250 employees. The funding can be used to buy external expertise from universities, research centres, or consultants regarding for example new business models, new products and services. It cannot be used for ordinary operations. Coompanion operates as a network of offices in 25 regions throughout Sweden.

An additional organisation with a particular focus on village development is Hela Sverige ska leva (All Sweden shall live). This is a national association consisting of nearly 4,700 village action groups. The aim of Hela Sverige ska leva is to support local development with a focus on a sustainable society. This organisation offers advice and support to local groups with knowledge on how to create local development. They also work as a lobby to influence public opinion about rural policies. In addition, there are a number of organisations that support particular projects able to deliver social benefits. Such funding is directed at particular projects and tasks of a group or association, such as funding the construction of village meeting spaces and sports facilities or venues.

In the Netherlands the main agency supporting CBSEs is the National Association of Active Residents (Landelijk Samenwerkingsverband Actieve Bewoners) (LSA), which is a platform of approximately 60 resident associations from 38 municipalities. It is a private non-governmental

organisation, consisting of a general director, project managers and support staff, which receives a large part of its funding through the Dutch Ministry of the Interior. Since its inception, LSA has looked for ways to strengthen the voice of residents in neighbourhood (regeneration) policies and to stimulate bottom-up initiatives of single residents or groups to improve the quality of life in their communities. It also offers newly formed community enterprises start-up grants if they submit an approved business plan.

The Netherlands Enterprise Agency (RVO) is the executive agency of the national government which is the most important public contact point for businesses, knowledge institutions and government bodies which can be contacted for information, advice, financing, networking and regulatory matters (EU, 2014). However, their scope is much broader than social enterprises.

Social Enterprise NL is a relatively recent (2012) but fast growing network of social entrepreneurs. Social Enterprise NL represents, connects and supports the growing community of social enterprises in the Netherlands. In November 2016, the number of members had already risen to 300 social enterprises. Apart from providing support, Social Enterprise NL focuses on the local and national government in improving the business environment for social enterprises. In contrast to many other countries, the Netherlands has no separate legal structure for social enterprises. Social Enterprise NL has also published a white paper on a new legal structure as well as drafting a code of conduct for social enterprises.

Social Powerhouse is also a support network by and for social enterprises, though less professional and active than Social Enterprise NL. In the area of incubators, the Social Enterprise Lab brings together students, academics, practitioners, experts and entrepreneurs, focusing on developing or scaling up social enterprises. Their main activity is developing, validating and disseminating knowledge from and about the social enterprise sector, spanning various domains (including health care and the environment).

However, these agencies support social enterprises in general, and do not explicitly mention CBSEs. A type of organisation that does not have a formal status, but seems to come quite close to CBSEs is *wijkondernemingen* (neighbourhood enterprises). A platform called "Wijkonderneming" offers relatively unstructured online information. On closer inspection, this reveals various legal forms, including associations, cooperatives, firms and social enterprises. The relevancy of this platform is rooted in the explicit recognition of collective action of neighbourhood residents to improve their living environment or living conditions, emphasizing small scale and proximity. This platform also makes explicit references to community trusts in the UK.

In England there are a number of organisations operating to provide support and in some cases funding to CBSEs. Social Enterprise UK is the national membership organisation for social enterprises whereas Locality (formerly the Development Trusts Association) is the national membership organisation for CBSEs in England with approximately 600 member organisations.

Advice and funding are also channelled through a number of other organisations. The National Lottery is a major source of funding and, for example, the Big Lottery Fund's Power to Change fund

has GBP 150 million to invest in community-led enterprises – such as shops, businesses and other community assets. There are many types of community business in England, such as shops, farms, pubs or call centres. What they all have in common is that they are accountable to their community and that the profits they generate deliver positive local impact. The Heritage Lottery Fund is also a source of funding for restoring or converting historic buildings.

The Big Lottery Fund's GBP 20 million Big Potential Fund is aimed at eligible voluntary, community and social enterprise organisations to improve their sustainability, capacity and scale and help them deliver greater social impact for communities across England. Big Potential is administered by the Social Investment Business on behalf of the Big Lottery Fund in partnership with Locality, Social Enterprise UK, Charity Bank and the University of Northampton. In addition, CBSEs can access additional funding from separate administrations in Scotland, Wales and Northern Ireland as well as national bodies such as the Arts Council, the Sports Council and specialist charities which target their resources on particular geographical locations.

We have found that local authority support for CBSEs is perceived as uneven and often inconsistent between different areas in all three countries. Much depends on local conditions and whether effective political and officer contacts can be secured over extended periods of time. Many CBSEs feel that their role and needs are poorly understood by local government and they often find it difficult to establish a point of contact for assistance. In England there is little direct local government funding for CBSEs and what was available has declined since austerity was introduced after 2008. But support can come in a variety of forms depending on local circumstances:

- Transfer of assets (land and buildings) and registering assets of community value;
- The award of service contracts;
- Technical support in arranging contracts, leases etc.
- Grants and loans (often at very low rates of interest);
- Assistance with applications to other organisations, including match funding.

In the Netherlands a panel study (Kleinhans et al., 2015) analysed the local policy context of CBSEs. Partly as a result of the absence of a national policy framework, there are significant differences in the ways in which local authorities define and assess CBSEs. In line with the white paper "Do-It-Yourself Democracy" (BZK, 2013), some local authorities choose to frame CBSEs in the context of active citizenship, with a consequence that distinctions between social enterprise, cooperatives and societal organisations are not clear. Hence, support varies, both in terms of content and finance. The extent to which local government is supportive towards CBSEs depends on the opinions of individual officials (local aldermen) and senior civil servants who are well positioned in the organisation to act as a "broker" between CBSEs and the local council. In many cases, CBSEs receive financial support from local authorities, housing associations or both. Usually, this funding comes in the form of a (temporary) subsidy or discounts on rent prices of real estate (such as empty schools or care homes). In other cases, local authorities commission CBSEs to deliver certain services, such as maintenance of green spaces. In the latter case, funding is an integrated part of the business model of the CBSE. The City Network G32 is now trying to promote social entrepreneurship within

the jurisdictions of the 32 largest cities, to stimulate a “social entrepreneurial-friendly ecosystem” (G32, 2017). However, it is not yet clear how this aim will translate into concrete measures.

In Sweden, there are 290 municipalities and 20 county councils/regions. The municipalities and county councils are encouraged to support social enterprises but are not required by law to do so. There is also no requirement to have a special unit and/or administrator dealing with social enterprises. However, a number of municipalities have created a specific policy to encourage the development of social enterprises and also offer support in the form of counselling often with an input of one of Coompanion's 25 regional offices.

As can be seen from this analysis, there are many different definitions of social enterprise (and in particular CBSEs). This is in line with the observation of Pestoff (2013) that both the public and the academic debates about social enterprises witness a lack of agreement on basic definitions and demonstrate considerable confusion about what to include and what not to include. Our analysis also shows a variety of sources of financial support, although perhaps more in England because of the way lottery funding is targeted towards community projects and businesses. There is also a stronger commitment in England to transferring surplus land and buildings from the public sector to third sector organisations such as community businesses and charitable bodies often provide capital budgets in order to bring them into beneficial use.

#### **4. Innovation in projects, impact and funding arrangements**

This section describes the origins and roles of the case studies drawing out particularly the ways in which they innovate with the organisation and delivery of services to their local communities.

All Dutch CBSEs rent out work spaces and living spaces (rooms) from their assets to generate an income. The CBSEs themselves rent the building from a housing association or local government at a below market rent or manage this asset for the local authority. However, there are differences in the extent to which this is financially sustainable.

Until recently, Stichting BewonersBedrijven Zaanstad (SBZ) ran two community centres, including the one (De Poelenburg) in which the organisation is based. In May 2017, the local government of Zaanstad and the SBZ jointly decided that the SBZ will withdraw gradually from the management of the community centre called “De Poelenburg”. The reason for this is that the CBSE can no longer afford (in terms of finance and staff capacity) to continue this task especially since the local authority is considering moving the community centre to a new location. The consequences of this decision again reveal the hybrid nature of this type of organisations (Doherty, Haugh and Lyon, 2014). On the one hand, the SBZ will be able to devote more time to its social aims. On the other hand, its dependence on local authority subsidies and other funding will increase significantly, because the management of the community centre also included raising an income from renting out spaces.

The Bewonersbedrijf Crabbehoef in Dordrecht is also struggling. While it pays a low rent to the local government, it still has to pay for utility and heating costs, and struggles to finance more expensive repairs on the building.

In the Bewonersbedrijf Malburgen, the situation is completely different. Even though many tenants in the Bruishuis pay a reduced rent, the rent income from the 130 units still amounts to a cash flow that is more than sufficient to pay the rent to the housing association Volkshuisvesting, as well as running and maintenance costs. In fact, Bewonersbedrijf Malburgen made a profit in 2016 after investing a lot of money in renovating many units, floor covering and other repairs in the first three years of tenancy.

Two of the three CBSEs conduct commissioned work for local government. Both the Stichting BewonersBedrijven Zaanstad and Bewonersbedrijf Crabbehoef target a specific group of volunteers, unemployed people on social benefits. The local government provides funds to pay for supervision by the institutions for which they volunteer. As an example of innovation, the SBZ has become the first CBSE in the Netherlands to act as a subcontractor in the so-called “social neighbourhood teams”, which bring together professionals from certain disciplines to target social problems in a specific area. As such, the local government pays two full-time staff members from SBZ in these teams. SBZ is also undertaking commissioned work for local housing associations, such as light renovation works and painting staircases of apartment buildings.

There are significant differences regarding the use of subsidies and grants. For Stichting BewonersBedrijven Zaanstad, a quarter of the total income consists of local government subsidies. This CBSE has also considered applying for subsidies from national funds, but this is hampered by the fact that submitting applications is a very time-consuming task. Initially, the Bewonersbedrijf Malburgen started out with a seed grant of EUR 140,000 from the LSA and a subsidy from the national Doen Foundation (EUR 60,000). However, they deliberately chose not to apply for more subsidies, but to focus on securing full independence as explained here:

*“At that moment, we were able to support ourselves. We did not need additional external funds. And I think, if you want something that you do not yet have in hand, you need to save for it. We save money for future expenses. And that is lowering your dependence on others. It's very tempting to say, 'let's apply for a subsidy', but I call this a bank of return favours, there is always a service that needs to be done in return. That is why I do not have any contact with the local government of Arnhem, I don't owe them anything. I don't want to be dependent on others in any way”.* (Interview with main entrepreneur)

In contrast, the Bewonersbedrijf Crabbehoef pays substantial attention to fundraising and subsidies. External grants were the main source of income from the very start. The Orange Fund (Oranjefonds), LSA, Doen Foundation, and Neighbourhood Wishes (run by the municipality) all provided significant grants, supplemented with a gift from the ING Bank. The acquisition of subsidies is considered as an important tool to keep the organisation running; not so much to offer activities, but to be able to hire professional staff to co-ordinate and deliver new activities.

In England, all three case studies depended heavily in the early years on a variety of subsidies and public sector grants and loans and local authorities often provided relatively short leases on below

market rents. This was clearly set out by the chief executive of Millfields Trust, which began by leasing some vacant buildings which were originally part of the Royal Naval Hospital in Plymouth:

*“The Trust formed itself as a company limited by guarantee in 1998 and I was appointed in 1999 so it took a couple of years to get established. There was more funding then, such as the Single Regeneration Budget (a central government funding mechanism to support local projects which ran from 1995-2001). It was an opportunity to draw down money from several sources such as English Partnerships, as the Hospital closed. These and European money were used to purchase and refurbish the buildings and to find a bit of revenue to employ the first members of staff”.* (Interview with Millfields Trust CEO)

Likewise, the Goodwin Trust in Hull begun in 1995 by taking over a vacant shop owned by the council on the Thornton estate. As they proved their viability, leases were often extended and additional assets were transferred. In addition, all the case studies made good use of other public sector funding sources: European Regional Development Fund, Local Enterprise Partnerships and third sector sources such as the Heritage Lottery Fund and Power to Change. Where necessary, commercial loans were negotiated but only on the basis of well-constructed business plans and property offered as collateral.

Organiclea is a cooperative in East London which runs a café in East London, leases some glasshouses from the council, and specialises in horticulture and the production of organic food. As a member of the cooperative made clear, trading projects enable other services to be provided through innovative cross-subsidisation, such as for those with learning difficulties:

*“Our box scheme is growing and we hope to make GBP 15,000 surplus next year. The market garden is people-focussed and the emphasis is on using people rather than machinery. We have lots of volunteers, some with learning difficulties. It would not run on its own commercially and staff are geared up to managing the volunteers. We’ve had funding from the City Bridge Trust. Those grants are increasingly hard to come by. There’s more emphasis on funding by outcomes.”* (Interview with cooperative member)

For the Goodwin Trust, income was dependent for some time on public sector contracts of various kinds but the Trust has recently demolished its temporary office building in order to build 41 units of affordable housing. For this it received funding from the Homes and Communities Agency which funds affordable housing in England, and a low-cost loan from the city council. When the development is complete, it will be occupied by people in housing need and the trust will generate a regular income from managing the estate.

In all three case studies a complex but balanced business model is operating. Trading opportunities tend to be exploited where they fit with the core objectives and where they generate a surplus which enables the non-trading activities to be undertaken or expanded. Grants tend to be applied for where these provide capital investment at nil cost, for example OrganicLea obtained a grant from Power to Change to repair the glasshouses. However, all three remain dependent on public or charitable funds to varying degrees but in each case earned trading income has increased as a proportion of total turnover.

In Sweden two of the CBSEs, Yalla Trappan in Malmo and Roslagskrafterna in Norrtälje are workers’ cooperatives, aiming to provide work and/or on-site job training for people that have

had difficulties moving into the regular labour market. Hence, the intended beneficiaries are joint owners of the two cooperatives. Both cases originate from work integration (WISE) projects but wanted to achieve a longer-term sustainable financial model. Yalla Trappan's trading activities consist primarily of catering, a café, cleaning services and study visits to other areas where the model might be developed. Roslagskrafterna's trading consists of a café, second hand shop and repair. This is the smallest and most recent case and has the legal structure of an economic foundation. However, it defines itself and is organised as a workers' cooperative with a social aim. Profits are reinvested in the organisation and given to local charities. The CBSEs are selling on-site job training including supervision and define these as payments from the Employment Service Agency and not grants.

The third Swedish CBSE, Nya Rågsveds Folkets Hus (NRFH) in Stockholm, provides a local meeting space in order to encourage and promote active citizenship and also to engage in on-site job training as part of their mission. It is owned by other associations and organisations in the community. This CBSE originated from a citizen's initiative of young people at the end of the 1970s as a protest against the lack of meeting spaces in the locality. The commercial activities are primarily renting out space, a café and second hand shop. The non-profit activities are targeting the local community and include a free meeting space for smaller non-profit organisations, advice and help to set up new organisations. The priorities of these CBSEs are to various degrees related to work and work experience, empowerment, integration and increasing liveability.

All three Swedish case studies have their roots in either the labour movement or cooperative principles. This is in line with previous research which has argued for social enterprises to be promoted in Sweden (Gawell, Pierre and von Friedrichs, 2014; Gawell, 2015). Within the two largest organisations, the founders clearly stated that the experience of the labour movement and the social democratic party had an impact on how and why they had an interest in running a CBSE. All of the cases have several income streams to ensure financial sustainability. A small proportion of the organisations' income comes from grants. All cases stress that activities need to be self-sustaining, thus they all fit the description of hybrid organisations, mixing not-for-profit and for-profit elements in order to secure the future of the organisations.

## **5. Discussion and conclusions**

This paper started from the question: to what extent can community-based social enterprises be considered as a form of social innovation and how does this innovation arise in terms of role, organisation and impact of CBSEs?

The results demonstrate that there are both similarities and differences in the establishment and evolution of CBSEs in England, the Netherlands and Sweden. The similarities largely relate to the growth of social enterprise organisations in response to changing relationships between citizens, the state and local economies. In all three countries, there has been a contraction of the state at central and local levels due to austerity and neoliberal economic philosophies. This has opened up a new

economic and political space filled by citizens organising themselves for the collective good who are eager to adopt innovative practices in doing so. In this sense, the growth of social enterprise and the cooperative movement can be considered as a kind of counter-narrative to (global) capitalism and the dominance of the market (Birchall, 2013). State and private sector organisations are becoming increasingly porous at the edges and often collaborating around different, and sometimes innovative, methods of service delivery. This collaboration also extends into civil society and provides opportunities for CBSEs. In England, in particular, there has been a growing trend towards assets, such as land and buildings, being transferred from the public sector which has provided new opportunities for the bodies such as the English case studies. But in all three countries changing circumstances have resulted in social enterprises which have little alternative but to experiment with new organisational forms and innovative projects in order to ensure that the competing institutional logics of social value and financial income are balanced.

A further similarity between the three countries is the ability of CBSEs to experiment with different organisational arrangements, whether a legally registered company, a cooperative or a social foundation. All in various ways subscribe to the principles of democratic control, representation, and empowerment of often relatively deprived and marginalised sections of the local population. The development of personal skills of volunteers and beneficiaries is also important, for example to secure employment or expertise opening up new career opportunities. Volunteers also play an important role in contributing as board members, treating volunteering as a way of promoting health and wellbeing, or assisting in reducing overheads. Thus all case studies are experimenting with new, inclusive and non-discriminatory ways of organising as well as working cooperatively in order to achieve a set of goals rooted in the priorities of the local community. In both England and Sweden leading members have provided consultancy advice and disseminated innovative approaches to other newly formed organisations and to government departments.

The differences between the three countries are equally significant. Different cultures, legal arrangements, funding sources and administrative arrangements have a significant influence on the origins and evolution of CBSEs. Contingency theory (Donaldson, 2001) helps to explain how CBSE practices in the three countries are responding to the range of national and local opportunities and funding sources available at the time. This also applies to the willingness of local authorities and other public and private bodies to provide support, for example through joint collaborative arrangements. Particular circumstances at a particular time need to be assessed and acted upon, but situations can change rapidly. The key variables seem to be the availability of different forms of capital and revenue funding, the extent of support from government agencies and the local authority, and the ability to access new contracts or to acquire assets which contribute towards the organisation's social and economic objectives.

A further difference relates to the definition of the beneficiaries of services provided. In Sweden the main focus is on the beneficiaries of the organisation which in the case of WISE projects are people who need training and who are unemployed. In England and the Netherlands there is a



longer tradition of community development and a perception that the organisation is set up to benefit, and is largely run by, “the community” in the defined area. In some urban areas members are drawing on experience of previous regeneration programmes designed to promote community engagement (Crisp et al., 2016).

In most of the case studies there are “leaders” (or entrepreneurs) who can be considered as the “motivating force” of the CBSEs. These are often, but not exclusively, the initiators, or board members that were involved in the start-up of the business. In Sweden and England, chairpersons (in Sweden) and chief executives (in England) are leading the organisations by being entrepreneurial, promoting core values and managing external relations. In the Netherlands, leadership is sometimes provided by the chairperson of the CBSE, in other cases by the main entrepreneur (*zakelijk leider*). Thus, Schumpeter’s work on innovation and entrepreneurialism brings valuable insights into how CBSEs are structured and how they need to continually identify new opportunities and working practices in order to survive. While they can also be described as “path dependent” (Kay, 2005), new projects or funding arrangements can rapidly change the direction or growth trajectory of the organisation, representing examples of “creative destruction” (McCraw, 2007).

While the literature highlights the importance to community leadership (Selsky and Smith, 1994; Renko et al., 2015), our case studies reveal practices of leadership exhibited by charismatic individuals, who take the majority of the decisions, normally based on core values but with varying amounts of consultation with the board. This contrasts with the general definition of CBSEs in the literature, which emphasises that CBSEs are run by and run for “the community” (see section 1). The finding is also partly at odds with the observation of Pestoff (2013) that participatory governance is crucial in keeping the economic activity of social enterprises in line with their social activities and thus limit or avoid mission drift. On the other hand, in the member-driven organisations such as the Swedish cases the members and representatives of the board can be considered to be the community or at least partly so. In the end, the democratic principle of “one member one vote” is still at the centre of the decision process, although in practice most decisions emerge by consultation and negotiation.

In many cases, board members have been recruited because of their skills, local knowledge or extensive networks as residents. In other words, CBSE tend to be skills-driven rather than democratic representative-driven, with the latter reflecting a situation in which board members might be democratically elected. The unique (combinations of skills) enable board members to become the “change makers” that drive innovation in the non-profit sector (Defourny and Nyssens, 2013). In reality, elections rarely occur in our case studies because few have multiple candidates for board vacancies. Experienced volunteers can often be a good source of recruits for board membership. The Swedish cases work on the basis of a cooperative structure which allows members to ensure good practice is followed, while in the Netherlands, this opportunity is lacking because foundations do not have members. OrganicLea in England strikes a balance between leadership by a few as well as the active involvement of all 15 cooperative members. The challenges of collective decision-making are not unique to CBSEs in that encouraging greater participation in decision-making is generally

seen as an important core value in CBSEs but at the same time it can slow up the process and make it more difficult to achieve clear outcomes.

The research project emphasized the need for the positive support of governments and especially local authorities. However, the social enterprise sector is still in its infancy, which affects the outcome of positively framed discourses on this particular form of active citizenship. In Sweden, there is a growing interest in social entrepreneurship but at the same time there seems to be uncertainty about the direction the national government should take in order to promote more responsibility of citizens. For instance, a commission report requested by the government with the purpose to investigate needed actions to strengthen the social economy and social innovations has not been published despite considerable interest in the outcome. The emergence and growth of social entrepreneurship is not without criticism and it has been suggested that changing government policies and narratives have been part of the problem (e.g. Dey and Steyaert, 2010; Teasdale, 2012). In England, social and community enterprise have a relatively low national profile in comparison, for example, to Scotland which has a national strategy linked to other programmes such as urban regeneration. In the Netherlands, the increasing importance of social enterprise has been acknowledged, but this has not yet influenced supportive policies at all levels. In fact, the growing role of social enterprise in the three countries may still be seen as a threat to established interests of local authorities, who feel that they should remain responsible for various forms of service provision.

In conclusion, Schumpeter's work, and the literature which followed, raises important questions about the nature of social innovation and entrepreneurialism. However, caution is needed in transferring his concepts relating to a capitalist economy to the different world of social enterprise. Here, sudden shifts in technology or challenges from competing enterprises are much less evident. We have used Schumpeter's work as a lens to assess the effects of social innovation on different aspects of CBSEs. We conclude that CBSEs represent a growing response in the three countries studied to a range of political factors such as austerity and a gradual retrenchment of state engagement in welfare provision in the context of neoliberalism. Both the organisational form and the projects adopted can represent an innovative and entrepreneurial response to local circumstances. In the words of Defourny and Nyssens (2013), the distinctive conceptions of such social entrepreneurship are deeply rooted in the social, economic, political and cultural contexts in which these organisations emerge. Each CBSE adopts a set of core values which broadly determines their development pathway that in itself can give rise to innovative solutions to social problems and a flexible, entrepreneurial approach to change. Slightly diverting from Schumpeter's concept of creative destruction, we have argued that new opportunities, the acquisition of new assets and other trading or non-trading opportunities can lead to "creative disruption" within CBSEs where a sudden shift in activity can open up new potential for growth.

Across the three countries, we have observed similar trajectories from a low-level start as a community project or cooperative, gaining over time an increasing income from commercial activities, and at some point developing a more diversified range of services and facilities based on both commercial trading and non-commercial funding. Thus, CBSEs can be both innovative

and entrepreneurial in developing this hybrid business model which is pioneering new approaches to local service delivery as part of a larger strategy of satisfying the growing demand for increased citizen involvement in delivering high quality services where the state is unwilling or unable to do so. In line with Vieta and Lionais (2014), we conclude that the potential of CBSEs to unlock transformational impacts on communities requires them to be grounded in wider issues of socio-economic justice and alternative visions of service delivery.

However, we conclude that CBSE development does not necessarily equate with expansion, particularly in spatial terms. Social innovations such as CBSEs often remain small scale and well-grounded in their locality; there is little experience in all three countries of rolling out a co-ordinated approach at urban, regional or national levels. In fact, this may not even be desirable; it has been argued that the idea of rolling-out or scaling-up of successful social innovations and social enterprises reflects “a mechanistic, mass production perspective of service provision” (Pestoff, 2014: 393). Each CBSE seeks financial sustainability but this will depend very much on the opportunities and constraints it identifies in its locality and through developing boundary-spanning, collaborative arrangements with others. However, central and local government in all three countries are still not fully committed to providing the levels of support to enable this sector to meet its full potential and practice across Europe remains very uneven. According to Defourny and Nyssens (2013: 28), social enterprises (and hence, CBSEs) “significantly influence their institutional environment and they contribute to shaping institutions, including public policies”. The sustainability and future growth of social enterprises can therefore be linked to recognition by government funding sources that social enterprises make a distinctive contribution to communities. We hypothesise that government commitment across European countries will increase over time, recognising the fact that social innovations as discussed in this paper not only imply a full learning process for active citizens and (nascent) social enterprises, but also a steep learning curve for governments and (other) supporting organisations.

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## Appendix. Summary of case studies

**Table A. England**

Case study	Legal Structure	Core values and aims	Trading activities	Non-trading activities	Key partners & funders
<b>Goodwin Trust, Thornton estate, Hull [Humberside]</b> Start date: 1995	Company limited by guarantee and charity, Goodwin Community Trading Ltd, Goodwin Community Housing Ltd.	To develop the community and to reduce deprivation through the acquisition of assets in order to deliver high quality services to meet community needs.	A wide range of services provided to expectant mothers, a nursery, childcare, youth provision, community meeting spaces, food bank, arts and training, including a radio station.  Construction of 41 affordable homes and management of 50 others.	Almost all activities are self-funding or grant funded, often a combination of trading and non-trading.	Hull city council, EU funding, Arts Council, contracts from a variety of agencies, Homes & Communities Agency.
<b>Millfields Trust, Stonehouse, Plymouth [South West]</b> Start date: 1998	Company limited by guarantee, community interest company, separate charity.  Open membership for anyone over 18 living in the area.	To promote the regeneration of the Stonehouse area through the provision of workspace and employment, and encouraging children to raise their aspirations and open up new work opportunities.	More than 90 business tenants employing about 300 people, other land and buildings, a pub.	A charity, Millfields Inspired, funded by the Trust to widen the horizons of primary school children.	Plymouth city council, Local Enterprise Partnership, ERDF.
<b>OrganicLea, Waltham Forest, [London]</b> Start date: 2001	Workers' cooperative registered with Cooperatives UK, company limited by guarantee.	To produce and distribute food and plants locally, and inspire and support others to do the same. To bring people together to take action towards a just and sustainable society.	Growing and selling over 100 varieties of fruit and vegetables, honey and wine, a veg box scheme, market stalls and sales to restaurants, a cafe, and training courses.	Supporting and training volunteers, some with learning difficulties.	Esme Fairbairn Trust, Power to Change, local authorities, Big Lottery's Making Local Food Work programme.

**Table B. The Netherlands**

Case study	Legal Structure	Core values and aims	Trading activities	Non-trading activities	Key partners & funders
<p><b>Stichting Bewonersbedrijven Zaanstad (SBZ)</b></p> <p><b>Poelenburg, Zaanstad</b></p> <p>Start date: 2013</p>	<p>Foundation (<i>stichting</i>) with an ANBI-status, i.e. an “institution working for a public benefit”.</p>	<p>To improve the local economy, employment and “liveability”, not only in the Poelenburg area, but also in other neighbourhoods. Mission: working on employment, working on the neighbourhood and working on each other.</p>	<p>Renting out meeting spaces from the local neighbourhood centre (until May 2017), acting as subcontractor in the local “social neighbourhood teams”, and small renovation works commissioned by local housing associations.</p>	<p>Resident coaches, providing “work experience positions”, collecting bulky garbage, running a neighbourhood garden, and organising sports activities in the Poelenburg neighbourhood.</p>	<p>Local government of Zaanstad (in particular various departments), local housing associations Rochdale and Parteon, the Dock foundation (care), Doen foundation (funding) and others.</p>
<p><b>Bewonersbedrijf Malburgen (BBM)</b></p> <p><b>Malburgen, Arnhem</b></p> <p>Start date: 2013</p>	<p>Foundation (<i>stichting</i>) with an ANBI-status, i.e. an “institution working for a public benefit”.</p>	<p>Provision of affordable housing to low-income people with different back-grounds; a meeting place for residents of Malburgen; opportunities for education and job training, enabling local residents to further develop themselves.</p>	<p>Renting out 130 units (primarily rooms, but also meeting / office spaces) from a renovated former care home.</p>	<p>Tenants are expected to volunteer in the neighbourhood, supporting various social activities. It accommodates self-employed people and associations offering recreational, physical exercise, do-it-yourself or other activities.</p>	<p>The local housing association, Volkshuisvesting, Philadelphia (care), “social neighbourhood teams” and others.</p>
<p><b>Bewonersbedrijf Crabbehoeve (BBC)</b></p> <p><b>Crabbehof, Dordrecht</b></p> <p>Start date: 2014</p>	<p>Foundation (<i>stichting</i>) with an ANBI-status, i.e. an “institution working for a public benefit”.</p>	<p>Offering a multifunctional meeting place for neighbourhood residents, enabling them to meet people, to volunteer for the neighbourhood, to gain working experience, to transfer knowledge and to develop budding talents and entrepreneurship.</p>	<p>Renting out a conference room, lunchroom with garden terrace and an atelier, catering services (using garden crops), and targeting fundraising.</p>	<p>The BBC hosts sewing ateliers, workshops, read sessions, hobby workshops, playful biology lessons for children, playing billiards or darts. It has a small library and an Internet café. Volunteers helping in the garden can bring home free crops.</p>	<p>Local government, MEE (care organisation), local housing association, Doen foundation (funding) and others.</p>

**Table C. Sweden**

<b>Case study</b>	<b>Legal Structure</b>	<b>Core values and aims</b>	<b>Trading activities</b>	<b>Non-trading activities</b>	<b>Key partners &amp; funders</b>
<p><b>Yalla Trappan Rosengård, Malmö</b></p> <p>Start date: 2010</p>	<p>Non-profit Womens' cooperative. Open for general membership.</p>	<p>Cooperative One member, one vote. Empowering immigrant women that are outside the job market.</p>	<p>Café, Catering, hand crafted food (marmalade, spices etc.), study visits, sewing and design studio, cleaning and conference service, on site job training.</p>	<p>Empowerment of immigrated women: e.g. language training, learning about Swedish society, legal matters, increase participation in society, experience and knowledge of how to run a business.</p>	<p>Members Malmö City Council, IKEA Employment service agency.</p>
<p><b>Nya Folkets Hus Rågsved, Rågsved, Stockholm</b></p> <p>Start date: 2007 (previous organisation in 1980)</p>	<p>Non-profit, member driven by local organisations and associations, with additional forms of legal structure such as: Limited company Foundation.</p>	<p>Aims to be an actor that both follows and initiates social change. Provide local meeting space for democratic meetings.</p>	<p>Rental of meeting space, arrange business conferences, café and catering, second hand shop, on site job training.</p>	<p>Give space and advice on how to organize citizen initiatives, provide cultural experiences (e.g. art exhibitions, theatre plays for children, workshops in music), help with homework, Christmas supper.</p>	<p>Member organisations, Local city council, Employment service agency, Stockholm's business regions, development, Local Real estate owners.</p>
<p><b>Roslagskrafterna Norrtälje</b></p> <p>Start date: 2014</p>	<p>Economic association Workers' Cooperative.</p>	<p>Create an opportunity to build a work place that suits them through a cooperative social enterprise. Provide on-site job training for people that have similar experiences. Engage in local charity.</p>	<p>Second hand shop, remake multi-services, job training, two cafés.</p>	<p>The BBC hosts sewing ateliers, workshops, read sessions, hobby workshops, playful biology lessons for children, playing billiards or darts. It has a small library and an Internet café. Volunteers helping in the garden can bring home free crops.</p>	<p>Members, Coompanion, Municipality, Recycling company, Employment service agency.</p>