Social Enterprises and Local Government

A Scoping Study

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Image courtesy of Mary Duniam

Preface

One of the most important objectives of the Australian Centre of Excellence for Local Government (ACELG) is to support informed debate on key policy issues. We recognise that many councils and other local government organisations are not always able to undertake sufficient background research to underpin and develop sound, evidence-based policy.

ACELG's research papers address this deficit. In addition to in-depth research papers which involve primary data collection and identify policy options, ACELG also supports the development and publication of scoping papers. These explore existing research on a topic to determine whether further work by ACELG or other organisations is warranted.

This scoping paper provides a précis of the knowledge concerning Australian local government's role in relation to social enterprise. ACELG was keen to partner with the Institute for Regional Development at the University of Tasmania to undertake this work because of the growing interest in the sector in collaborative place-based solutions to current challenges facing communities.

This paper reviews relevant literature in Australia, the US, Canada, the UK and Europe, and finds that very few studies address the actual or potential relationship between local government and social enterprise. The paper concludes that social enterprise-local government interactions need to be explored more thoroughly, and sets out a typology of these interactions which will provide a useful framework for future investigations.

ACELG welcomes feedback on this paper, as well as advice on examples of local government-social enterprise relationships that haven't been documented. General input from local government practitioners and other stakeholders regarding possible areas of future policy research, as well as proposals for research partnerships would also be welcome. For more information, please contact our program manager, research: stefanie.pillora@acelg.org.au.

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Table of Contents

Executive Summary

Social enterprises are organisational forms that bridge traditional sectoral categories, using 'economic' trading activities to promote social and community goals. Current trends in public policy suggest that there is opportunity for cross-sectoral collaboration to generate place-based solutions. This report explores the potential for local governments, as 'agents of place', to work with social enterprises to support local development outcomes.

This study is a first attempt to scope 'what we know' about the relationship between social enterprises and local government in the Australian context and internationally. The study has been conducted as a 'Knowledge Partnership' between the Institute for Regional Development (IRD) at the University of Tasmania and the Australian Centre for Excellence in Local Government (ACELG). It has been limited to a desktop review of reports, scholarly articles, and other published documents.

The study seeks to provide a preliminary answer to the questions:

1) How much information is currently available about the relationship between social enterprise and local government in the Australian context, and what does it tell us?

2) How is the term social enterprise defined and understood in international literature?

3) How does local government understand and view social enterprise in Australia?

4) What are the key issues and opportunities related to the relationship between social enterprise and local government in Australia?

5) What can we learn from the international experience regarding the relationship between social enterprise and local government?

A range of documents was collected over the course of the study. While there is an extensive literature on local government and a rapidly growing literature on social enterprise, there is still very little documented evidence of the relationship between the two, whether in Australia or overseas. At the same time, there is considerable conceptual and theoretical evidence to suggest that stronger engagement between social enterprise and local government could assist Australian local government in facing some of its current challenges. There is also evidence suggesting the forms that such relationships between social enterprise and local government might take.

This report defines social enterprises as *organisations that use trading activity to achieve a social mission*. There is no single universally agreed definition of social enterprises; the nature of social enterprise varies across country contexts according to their unique histories, cultures and legal frameworks. While there is no one-size-fits-all definition that covers all the varieties of social enterprises, their shared commonality is in their ability to combine some form of social mission and some form of economic trading. Whether social enterprises position themselves as part of the broader social economy, as in Canada, or as a partner of government in local service delivery, as in the UK, and regardless of the legal form they take, social enterprise shares a broad orientation toward achieving 'social' and 'economic' outcomes simultaneously.

Anecdotally, we know that a number of local councils around Australia have been involved in social enterprise development, either through intentionally enabling and partnering with the social enterprise sector (e.g. Parramatta City Council), and/or by establishing social enterprises of their own (e.g. Launceston City Council). Published scholarly and practitioner documents in Australia and overseas provide a few examples of local government supporting social enterprise development or working with social enterprises to achieve local development outcomes. Many of the organisations that were contacted to provide documents for this study nominated unpublished examples of local government-social enterprise relationships. There is a clear opportunity to begin to document these fascinating on-the ground experiences, and learn from them.

While the available evidence from published sources is limited, this report suggests as a starting point that it is possible to identify three main types of local government-social enterprise interaction. These are:

1) *Local government creating social enterprises*: Where local governments recognise an opportunity to fill gaps in service provision and address social issues in ways that are strongly aligned to their key strategic priorities.

2) *Local government supporting social enterprises*: Where local governments aim to explicitly support the development of new and existing social enterprises in their local area: primarily through funding programs, training programs, and/or social procurement policies and initiatives.

3) *Local government partnering with social enterprises*: Where local governments enter into formal partnerships with specific social enterprises for a defined purpose.

Currently documented cases do not generally extend to examples of deep place-based partnerships, or to recognition of local governments' own social enterprise activities. Nevertheless, the documents reviewed identify an opportunity to deepen the collaborative relationships between local government and social enterprise, and suggest that this may be an effective strategy to support place-based development processes. The study concludes by setting an agenda for more in-depth research on the nature and impact of social enterprise-local government relationships and their role in local development.

1. Introduction

Social enterprises are organisational forms that bridge traditional sectoral categories, using 'economic' trading activities to promote social and community goals. Recent research in the Australian context suggests that social enterprises often have strong ties to local places and create multiple positive impacts for local communities (Eversole, Barraket & Luke 2012; Eversole & Eastley 2011). This suggests the need to look more closely at how governments, particularly local governments, might benefit from closer partnerships with social enterprises.

Current trends in public policy demonstrate interest in the possibility of cross-sectoral collaboration as a way to generate place-based solutions, including for local government (see Pillora & McKinlay 2011). Local governance approaches offer a possible response to the pressure placed on local government to be both efficient and equitable – that is, to deliver maximum local benefit with minimum resources, and to do so in a way that is inclusive and participatory. The mandate to achieve both efficiency and equity has similarly long been at the heart of local organisations' local development role (see Esman & Uphoff 1984). To the extent that local government is now seen as an agent of local development, it also must grapple with these twin challenges.

Social enterprises offer a possible response to the twin challenges of efficiency and equity: on the one hand, social enterprises aim to develop sustainable business models with efficient allocation of resources; on the other, they aim to create social benefits which are often underpinned by goals around participation and inclusion. Social enterprises' way of working suggests a possible model for place-based development, one which is increasingly intriguing to local government. There are a small but growing number of cases in the Australian context in which local governments are learning from, supporting, partnering with, and even emulating social enterprises. Is this simply a passing trend, or does it suggest a way forward – a new way of governing – for local government into the future?

This study is a first attempt to scope, broadly, what is currently known about the relationship between social enterprises and local government in Australia, as well as in the international context. This study has been conducted as a partnership between the Institute for Regional Development (IRD) at the University of Tasmania, and the Australian Centre of Excellence in Local Government (ACELG). As a preliminary scoping study, its intent is to highlight some of the interesting things we know – and what we do not yet know – about the relationship between local government and social enterprise, and provide impetus and direction for future work.

2.   Aims of the Study

In August 2011, the IRD hosted a workshop for local government as a follow up to the *Tasmanian Social Enterprise Study* (Eversole & Eastley 2011) published earlier that year. The workshop, titled 'Enquiring, Equitable and Enterprising: An Engaging Conversation about Social Enterprise for Community-Centred Councils', was attended by over twenty local council representatives in North Western Tasmania, including both councillors and staff. Workshop attendees expressed interest in knowing more about social enterprises and exploring ongoing opportunities in this space.

Local governments across Australia are increasingly engaging with the ideas and language of social enterprise. They are sensing that there is something here that is relevant for them and the challenges they face. Anecdotally, we know that a number of local councils around Australia have been involved in social enterprises development, either through intentionally enabling and partnering with the social enterprise sector (e.g. Parramatta City Council), and/or by establishing social enterprises of their own (e.g. Launceston City Council). But we know very little about the extent of local government involvement in social enterprise, the nature of this relationship, or the roles that social enterprise may be playing in helping local government to meet its goals.

This study takes a first step toward filling this knowledge gap. As a preliminary scoping study, its aim is to identify what evidence is currently available in the published literature on the relationship between social enterprise and local governments. This includes a review of scholarly literature, published reports, case studies and websites from Australia and overseas to explore what is known about the role of social enterprises and their relationship with local governments.

Overall, the project seeks to answer the question: *How much information is currently available regarding the relationship between social enterprise and local government in the Australian context and internationally, and what does it tell us?* Equally, it attempts to place this information in a theoretical frame. The present report summarises the findings of the scoping study for interested audiences, particularly Australian local governments. It provides an overview of issues and opportunities related to the relationship between social enterprise and local government in the Australian context, and its actual and potential role in local development processes as supported by available evidence. It then suggests directions for future research.

3. Methodology

3.1   Approach

This project has been designed as a 'Knowledge Partnership' between the IRD and ACELG. As a Knowledge Partnership, the study seeks to identify and bring together the fragmented knowledge of various development actors (local government, social enterprise, academics etc.) to answer questions of mutual interest.

As outlined, the overall aim of the study is to scope what evidence is currently available on the relationship between social enterprise and local governments. The study provides a current snapshot of *what we know*, in order to highlight key insights, their significance, and directions for future research. For this project, the key research questions are as follows:

1) How much information is currently available about the relationship between social enterprise and local government in the Australian context, and what does it tell us?

2) How is the term social enterprise defined and understood in international literature?

3) How does local government understand and view social enterprise in Australia?

4) What are the key issues and opportunities related to the relationship between social enterprise and local government in Australia?

5) What can we learn from the international experience related to the relationship between social enterprises and local government?

As a preliminary scoping study, the data collection has been limited to a desktop review of published secondary data sources. These include scholarly articles, occasional papers, published case studies, practitioner reports, project documents and websites which illuminate some aspect of relationships between social enterprises and local governments. The scope of this desktop review included documents from both Australia and overseas. Interviews, in-depth case studies and other forms of primary data collection were beyond the scope of this preliminary scoping study.

It was recognised at the start of the project that the relevant data sources to address the research questions would be dispersed across three domains: the scholarly literature; the practitioner literature and related documentation in the social enterprise sector; and practitioner literature and related documentation from local government. In the early stages of the project, a deliberate strategy sought to mobilise knowledge partners from across the three sectors: local government, social enterprise, and academia. This was done through mobilising the extensive networks of the two project partners. This process ensured that a greater range of Australian documents were identified than would have necessarily come to light through a standard web and literature search. This process also generated considerable interest in the research topic and led to the identification of potential case studies for future research.

3.2 Identification of documents and case studies

ACELG and IRD developed and distributed a flier regarding this study through their networks in social enterprise, local government and academia, with requests that any relevant documents be forwarded to the researchers. ACELG disseminated information about the project nationally through its local government networks. IRD disseminated information about the study through 19 initial contacts in Tasmania and interstate including nine social enterprise support networks, the Local Government Association of Tasmania (which distributed the scoping study information to all councils within Tasmania), and a number of other key organisations and individuals including academic colleagues.

The request to pass on information about the study through networking was quite successful; it led to the distribution of the information through websites, twitter feeds, and email newsletters and distribution lists. Thirty three different individuals and organisations contacted the researchers directly as a result of having received information about the scoping study. All expressed interest in the study: some requesting further information, and some providing links to relevant reports and websites. A number were eager to provide the researchers with examples of local government-social enterprise collaboration, many of which had never been documented. Seven councils were among these; all seven identified that they were already engaged with social enterprises through initiating their own social enterprise activities, partnering with social enterprises, or supporting policy and/or funding initiatives such as social procurement. Equally, eight social enterprises contacted the researchers seeking further information and/or providing information about their own enterprise. These contacts suggest potentially fascinating case studies for future research.

While many of the documents included in this study were identified through standard web and database searches, the network of contacts established through canvassing interest in the sector drew the researchers' attention to a significant number of documents and available case studies that would not have been easily identified by other means. The approach illustrated the effectiveness of a Knowledge Partnering approach in broadening the knowledge base for an exploratory study such as this. The process also illustrated the opportunity for achieving a broader 'reach' and level of engagement from diverse stakeholders by utilising social media applications such as Twitter and Facebook.

The documents that were identified and reviewed for this report fall broadly into three categories:

- International reports and scholarly studies, particularly from the UK, Europe, Canada, and the US. Most of the documents reviewed were conference or occasional papers, research reports, or (a few) journal articles exploring the relevance of social enterprise and/or the social economy to local development. Some studies also referred to the changing role of local government in local development. Few studies, however, explicitly mentioned the actual or potential relationship between local government and social enterprise. A notable exception is a report by Kain *et al.* (2010) specifically focusing on 'Municipal Government Support of the Social Enterprise Sector' in Canada.

- Australian documents, primarily research and practitioner reports, as well as some conference and occasional papers. The Australian literature primarily explores the nature and development of social enterprises themselves, including social enterprise profiles, and areas where the

support of social enterprise by local government has been or could be effective. Some of these studies also highlight the contribution of social enterprises to local development, and/or the roles that local councils can play in supporting social enterprise. There is, however, only very limited discussion of the actual or potential relationship between local government and social enterprise; a notable exception is a paper by Barraket and Archer (2009) which discusses how social enterprises working at the local level may or may not influence local governments' way of working.

- Relevant web sites identified over the course of the study. Many of these sites offer practical information, articles, and links to resources about and/or for social enterprises; as well as announcements of social enterprise initiatives or programs and networking opportunities. It is on these diverse web pages that it is possible to observe a few documented examples of relationships between local government and social enterprise. This includes social enterprise information found on local government web pages, and social enterprise web sites that discuss work with local government.

3.3   Limitations and future research

The key limitation of the present study is its scope. It includes only a desktop review of published documents. This review has demonstrated that while there is an extensive literature on local government and a rapidly growing literature on social enterprise, there is still very little documented evidence of the relationship between the two, either in Australia or abroad. At the same time, this study has generated clear interest from both local government and social enterprises, including an expressed desire to share their stories and learn more about what others are doing in this space. Thus, while there are some clear lessons to be learned from the published literature – from what is there, and from what is not – there is also an opportunity to deepen our shared understanding of the relationship between social enterprise and local government through future research.

4.   The Concept of Social Enterprise

The research questions for this scoping study revolve around two core concepts: the concept of local government, and the concept of social enterprise. *Local government* is a reasonably familiar concept, even as local government itself is in a process of change and contestation. Local government is, in brief, the tier of government closest to the people, entrusted with an evolving suite of responsibilities at the local level. *Social enterprise*, on the other hand, is a less familiar concept. It is important to consider the meaning of the concept of *social enterprise*, and how this can vary across geographic and social contexts.

4.1   Origins and definition

Social enterprises can be defined broadly as organisations that conduct economic trading activities to resource their social or community mission. The nature of the 'trading activities', the extent of the 'resource' generated and invested, and the range of potential 'missions' are all deeply debatable (see for example Barraket & Collyer 2010). While there is a generally shared understanding of social enterprises as organisations that combine (some form of) economic enterprise with (some form of) social mission, a universally agreed definition is elusive. For the purposes of this report, we will define social enterprises as *organisations that use trading activity to achieve a social mission*; recognising that while the particularities of this definition may be easily disputed, the broad nexus between social mission and economic trading sits at the heart of what defines 'social enterprise'.

The social enterprise sector is often seen as having its roots in the not-for-profit, or 'third' sector. Historically, the origins of social enterprise can be traced back to charitable organisations, voluntary organisations, and cooperatives, which have long had a social benefit mission and undertaken activities such as social work and poverty relief (Borzaga & Santuari 2000). These kinds of social benefit organisations have often used trading activities of some type to finance their social missions, yet without explicitly identifying as social enterprises. Social enterprise is therefore a longstanding *practice*, but a relatively new *language* to describe it.

One reason the term social enterprise has a mixed and contested heritage is due to its different historical and cultural roots in different contexts: for instance, philanthropic roots in the US, and cooperative roots in the UK, EU and Asia (Ridley-Duff & Bull 2011). International literature identifies that social enterprise is not a new concept, rather it stems from organisational philanthropy to improve human and environmental well-being. The term social enterprise has over time yielded mixed definitions, often according to the legal, operational and social boundaries in the country in which social enterprises exist (Johnson & Spear 2006; Kerlin 2011). Research has found that there are distinctive social enterprise sectors in different countries, the development of which has been determined by each nation's political economy, tradition and culture. These differences influence the interpretation of the term 'social enterprise' in different contexts, and its role (Defourney & Nyssens *et al.* 2008; Kerlin 2011). As the idea of *using trading activity to achieve a social mission* is translated into different national contexts, this gives rise to a wide spectrum of organisational possibilities under the banner of social enterprise.

McNeill (2009) raises the point that social enterprise should be viewed as a 'movement' rather than a sector, to avoid attempts to pigeon-hole diverse social enterprises under a single common definition. It is only over the past two decades that social enterprise 'movements' are visibly emerging, in the sense that organisations, networks of organisations, governments, and academics

are intentionally using the concept and language of social enterprise to talk about and promote a 'new' way of working that crosses assumed boundaries between 'economic' and 'social' activity. The concept of social enterprise is generating considerable interest by academics and the business sector regarding its purpose, organisational structure, governance, relationships, and most importantly, its social impact. Nevertheless, at the meeting points between for-profit business and not-for-profit community work, there are diverse missions and diverse organisational possibilities. The full range of contributions of these kinds of organisations to local development is still not completely understood.

4.2 Social enterprise in the US and Canada

The concept of social enterprise in the US is broad, encompassing a range of organisational types. Within the US, the broad field of social enterprise is understood to include cooperatives, organisations with a social purpose, and the mutual sector, falling along a continuum ranging from profit-oriented businesses engaged in socially beneficial activities, to dual-purpose 'hybrid' businesses that combine profit goals with social objectives, including not-for-profits (Johnson & Spear 2006; Kerlin 2011). The concept of social enterprise in the US context places a strong emphasis on income generation and commercial viability alongside social value creation (Birkhölzer *et al.* 2008; Kerlin 2011; Johnson & Spear 2006). However, some social enterprise observers in the US are worried that the growing market orientation of not-for-profits that are registered as tax-exempt organisations will have a significant impact on market competition, and that there is a need in the US for clearer legal definitions for not-for-profits engaged in revenue-generating activities (Kerlin 2011).

In Canada, by contrast, the concept of social enterprise does not share an equally strong commercial focus. Rather, in Canada social enterprises sit firmly within the concept of 'social economy', or third sector. The social economy in Canada is an umbrella term for all variations of the third sector (including social enterprise), which co-exist with the private and public sectors. Localism is a key concept within the social economy, and in Canada social enterprises are strongly aligned with local community economic development (Kain *et al.* 2010; Downing & Charron 2010). Morisette (2008) argues that the social economy is 'at the heart of democratic innovation and social transformation' at the local level, providing a response to the collective needs of the community. Equally, 'locally-based, community ownership', along with the ability to generate 'social, socio-political, and economic benefits', are among the key foundational principles articulated by the Canadian Social Economy Hub (2008). Overall, the Canadian social enterprise sector is seen as a contributor to the social economy, rather than a 'stand-alone' sector. The social economy, in turn, represents a locally and community embedded understanding of 'economy' that does not pursue commercial profit in isolation from its social context.

4.3 Social enterprise in the UK and Europe

The social enterprise sector in the UK includes community enterprises, credit unions, trading arms of charities, employee-owned businesses, cooperatives, development trusts, housing associations, social firms, and leisure trusts, which are strongly aligned to the third sector and whose philosophies are embedded in the Triple Bottom Line of social, environmental, and financial benefits to community. The social enterprise movement in the UK has grown since 1998 when the first agency, Social Enterprise London, was established to support emerging businesses that reflected a commitment to a social cause. In 2002, the UK Department of Trade and Industry launched a unified Social Enterprise Strategy (UK Department of Trade and Industry 2002) whose purpose was to play

an important role in delivering many of the Government's key policy objectives. This was followed by the *2006 Social Enterprise Action Plan* produced by the UK Office of the Third Sector.

The UK social enterprise sector is substantial and plays a strong role within the general social welfare system. Despite this, literature identifies that social enterprise in the UK context is both under-estimated and misunderstood (Harding 2004). It has been argued that the rapid growth of the social enterprise sector in Britain has been the product of an act of political will by the government (Daniela *et al.* 2009, p. 150). Supporting social enterprise within the UK is seen as an alternative policy approach responding to local economic and social pressures, with an expectation that the social enterprise sector will increase their share of delivery responsibility across gaps in local public services. Alongside the devolution of services from central government to local government (Lyons 2007), this tends to move public sector engagement with social enterprise from central government to local government level. At the same time, some authors have argued that the social economy should not be treated as a panacea for complex social problems at the local level (Noya & Clarence 2008).

Defourny and Nyssens (2008) suggest that the concept of social enterprise is not as widely known, recognised, or understood throughout Europe as in the UK. One of the key elements of social enterprise in the EU is the variety of legal forms adopted in each country, and the operational limitations imposed by these legal forms. In both the UK and Italy, for example, social enterprises are firmly embedded within the third sector (Defourny & Nyssens 2008). In Italy, Galliano (2005) has identified that the decreasing role of the welfare state and growth of social problems are key drivers for the emergence of social economy entrepreneurship fostering localism. Interestingly, Italian law requires a specific governance model for social enterprises, while the UK imposes a business model of operation. Social enterprises in other European countries such as France, Spain, Portugal and Greece have adopted new legal forms such as cooperatives, providing services that encourage integration with marginalised communities. However, in some countries such as Germany and Finland, social enterprises do not appear to fit with cultural traditions or social policies, and there is an identified lack of understanding of the term 'social enterprise'.

Overall, legal requirements imposed by central governments provide guiding principles for the operations of social enterprises. In the European context there is a strong emphasis on work integration; some countries only register social enterprises that provide employment opportunities for those disadvantaged in the labour force. This raises the point that some countries are looking at social enterprises to 'fix' economic problems. The definition of social enterprises used by the European Enterprise Network (2012) is less prescriptive; it states that social enterprises are:

> 'organisations with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits. They place a high value on their independence and on economic risk-taking related to ongoing socio-economic activity.'

This notion of social enterprise cuts across a wide spectrum of organisational possibilities, legal forms, social missions, operational activities, and commercial activities.

Comparisons between countries and regions identify that each have their strengths and that each can learn valuable lessons from each other (Kerlin 2011). For instance, the US can learn from

Western Europe about recipient involvement in social enterprise, social inclusion, organisational governance, and government involvement. On the other hand, the US offers important examples for Europe on how to use social enterprise across a range of services, and how to expand the types of social enterprise and the targeted use of government contracts. Overall, social enterprise is a concept that has stimulated wide interest internationally from policymakers as well as from enterprises and communities themselves. Yet this is not a single story of social enterprise, but a mosaic of concepts and experiences under the broad 'social enterprise' umbrella.

4.4   Social Enterprise in Australia

While public policy interest in social enterprise in Australia is relatively recent, there is a growing awareness of social enterprises as organisations, and growing interest in the idea of the social enterprise sector. The recent 'Finding Australia's Social Enterprise Sector' (FASES) study estimated that there are already around 20,000 social enterprises in Australia (Barraket *et al.* 2010). The study was motivated by recognition that 'little is known about the dimensions or impacts of the existing social enterprise sector in Australia'; which was 'in part due to the lack of a self-identifying social enterprise movement or coalition in this country' (Barraket *et al.* 2010, p. 8). McNeill (2009) has also claimed that a recognisable social enterprise 'movement' still remains underdeveloped in Australia, possibly because of the strong 'risk-averse' culture within the public sector. Nevertheless, public sector interest in social enterprise is growing, most notably with the establishment of 'Social Enterprise Development and Investment Funds' in 2011 by the Australian Government Department of Education, Employment and Workplace Relations (DEEWR).

Social enterprises in Australia take a range of organisational forms, including incorporated associations, companies limited by guarantee, sole proprietorships, cooperatives, and others (Barraket *et al.* 2010, pp. 26, 37; Eversole & Eastley 2011, p. 25). The legal structures used by social enterprises overlap with those of private companies and not-for-profit organisations; 'thus, it is difficult to identify social enterprises or distinguish them from other kinds of organisations based on legal structures alone' (Barraket *et al.* 2010, pp. 26, 37). For this reason, there are significant empirical challenges here as elsewhere to identifying social enterprises, which can in part explain why the sector exists but little is known about it (*ibid*, p. 8). While the FASES study was the first attempt to quantify and profile the Australian social enterprise sector, the report emphasised that social enterprise in Australia 'is not a new phenomenon and it is not organised around a narrow set of missions. Rather, social enterprise – like other aspects of civil society – gives expression to a range of human aspirations as diverse as society itself' (*ibid*, p. 5).

From a public policy perspective, social enterprises in Australia have been interpreted through a number of lenses: as contributors to social inclusion (Adams 2009, p. 50), generators of employment and intermediate labour market opportunities, and more broadly as 'organisations that provide value to the community as a whole through entrepreneurial activities' (DEEWR 2010, pp. 11-12). Some observers also see social enterprises' role as essentially transformational, to 'promote social innovation – taking novel approaches to addressing social problems and needs' (*ibid*, pp. 11-12). While there are a range of perspective on what social enterprises are and what they can do in the Australian context, the overall focus is on the potential outputs and impacts of social enterprises – social and economic – and how best to support social enterprises to achieve these.

5.   Local Government and Social Enterprises

Local government and social enterprises represent two different organisational forms, but both arguably have an important role to play in local development processes. Given current pressures facing local government in Australia, is it possible for local governments and social enterprises to develop closer relationships to support local development outcomes? This chapter explores the context for local government in Australia, the potential role of social enterprise, and the available evidence documenting relationships between local government and social enterprise – including the forms these take.

5.1   Challenges for local government

Contemporary local government in Australia faces a number of competing pressures and demands: for economic efficiency, for equitable decision making, and for creating successful local development outcomes. The traditional perception of local government in Australia is that it is the 'peak body' for the community. Its traditional structure embeds a number of tensions: it is a representative democracy providing leadership and representation for local communities; at the same time, it is a statutory body mandated by State legislation, and organised as a formal bureaucracy that does not encourage engagement with the outside community in decision-making. As simultaneously 'agents of government' and 'agents of place', local governments embody many of the current tensions between government and community sectors in Australia (see for example Eversole 2011). This raises the need to explore new ways of working that are grounded in place and local governance approaches (see for example Pillora & McKinlay 2011). Working across silos and sectors, social enterprises embody a cross-sectoral governance logic (Barraket & Archer 2009; Eversole 2012), one which is of growing interest to local government in Australia.

Australian local government continues to struggle to find its place in the federal democracy: being conceptualised as an instrumental rather than a political institution by both state and federal tiers of government. At the same time, local government is understood to have a role in re-invigorating place, managing place, and shaping place (Grant & Dollery 2007; Lyons 2007). In Australia, State governments generally measure council performance against primary indicators such as financial management, asset management, land-use planning, and community satisfaction. This places pressure on local government to focus on these indicators to ensure ongoing government funding. However, community expectations of local government go much further, to include place-based solutions that address local social and economic issues. While local government is multi-functional, it is perceived as inflexible and possibly irrelevant in the context of the rapidly evolving needs of the community within which local government sits. The emerging dilemma for local government in Australia as an agent of place is the need to evaluate the relevance of its current approach to working with 'community'.

5.2   Can social enterprise help?

While local government in Australia has an established role and relationship with their communities, social enterprises have formed their own relationships with local communities. In Australia, the emergence of social enterprises often signifies that local people have mobilised local resources to solve local problems in response to social or market disequilibrium within the community or place (Pritchard & McManus 2000). Social enterprises can also be considered agents of place, as they emerge from place and undertake activities to benefit that place. The social value they create is

often a blend of several values: economic, social, environmental, and cultural. Recognising that local government is not the sole agent of place, but one of many local agents or actors who contribute to local development outcomes, opens the door to reflecting on new approaches to local governance: opportunities for 'doing government differently' (Barraket & Archer 2009; Hambleton 2011).

Internationally and in Australia, it is possible to identify examples of local government bodies collaborating with social enterprises to achieve local development outcomes. One example from Canada is an initiative by RESO (*Regroupement economique et social du Sud-Ouest*), a community development corporation working for economic and social revitalisation across five neighbourhoods in Montreal's southwest. In response to a sharp economic decline in the 1980s, community activists worked with governments, businesses, unions, and citizens to create a new development model based on mobilisation, participation, community partnerships, and democratic governance (Morisette 2008). Another example from the UK is Sunderland City Council's scheme to find innovative public sector staff with the talent to start their own social enterprises (Purt 2010). In this case the initiative was unsuccessful, as it was driven by an underlying agenda of staff cuts and cost shifting, and the prospective social entrepreneurs had not undertaken adequate research to ensure viable businesses. Nevertheless, this case illustrates an interest on the part of local government to actively encourage social enterprise development.

In Australia, there are a few examples of Australian local government explicitly engaging in social enterprise support strategies. One such example is *Enterprise Melbourne* and the City of Melbourne's *2009-2013 Council Plan* to create economic prosperity by supporting a sustainable, resilient, and diverse economy. Council's focus encourages the development of both social enterprises and micro businesses, recognising that both market-based and social economy businesses contribute to a strong economy. Parramatta City Council in New South Wales also has programs that explicitly support social enterprise, and Maribyrnong City Council in Victoria has recently commissioned a report to identify the opportunities to support social enterprise in their Council area (Maribyrnong 2011). In addition, a number of councils have indicated a growing interest in social procurement, opening the door for social enterprises to leverage their social-value-creating activities into access to local government tenders and contracts. A social procurement guide for local government was also published by the Victorian government in 2010 (Victorian Government 2010), and a guide to social procurement for local governments has recently been released in New South Wales (Social Enterprise Sydney 2012).

These examples suggest a growing interest on the part of local government to actively engage with social enterprises, recognising that the latter can potentially help them to achieve local development outcomes. The next section will present a preliminary typology of relationships and interactions between social enterprise and local government identified in the literature to date.

5.3   Typology of social enterprise-local government interactions

Specific examples of relationships between local governments and social enterprises are difficult to identify in the literature. While anecdotally both social enterprises and councils that contacted us during this study described examples of engagement between the two types of organisations, little has been formally documented, let alone analysed. Nevertheless, the recognition that both local government and social enterprise potentially play an important role in place-based development suggests the need to explore local government-social enterprise interactions more closely.

Though the evidence is limited, this report suggests as a starting point that there are three main types of local government-social enterprise interaction evident in published documents and through observation and anecdotal accounts. These are:

1) **Local government creating social enterprises**: Where local governments establish a social enterprise to fill gaps in service provision and address social issues that are strongly aligned to their key strategic priorities.

2) **Local government supporting social enterprises**: Where local governments aim to explicitly support the development of more and stronger social enterprises in their local area: primarily through funding programs, training programs, and/or social procurement policies and initiatives. 'Support' may also involve raising community awareness of social enterprises and their contributions.

3) **Local government partnering with social enterprises**: Where local governments enter into formal partnerships with specific social enterprises for a defined purpose.

Perhaps the most common yet least discussed of the three is the case of *local government creating social enterprises.* Many local government authorities in Australia have already established social enterprises without using that language to describe their work. Eversole's paper '*I didn't know that's what we were:* Social Enterprise as an emerging sector in Tasmania' (2012) identifies that organisations may operate as social enterprises without knowing it, and may later choose to identify as a social enterprise if that identity resonates with them. Common examples of local government-created social enterprises include local government-run children, family and day care services that aim to provide these services at an equitable cost to community members.

More commonly cited in the literature are examples of *local government supporting social enterprise development*. Support may take the form of business development and finance opportunities for social enterprises, such as the Parramatta City Council's seed funding program and social enterprise resources web page. It may also take the form of encouraging social enterprises' market development through establishing social procurement policies. In Australia, both Sydney and Victoria have now developed social procurement guides (see Victorian Government 2010; Social Enterprise Sydney 2012); the Victorian guide is focused specifically on social procurement for local government.

An article by Kain *et al.* (2010) discussing 'Municipal Government Support of the Social Enterprise Sector' in Canada presents a typology of interactions between local government and social enterprise that describes various ways that local governments may support or formally partner with social enterprises. Kain *et al.*'s (2010) typology is as follows:

1. **Solitudes**: where there is no relationship between the sectors;

2. **Coffee Shop**: most often applied to small local governments where familiarity between community members underpins their multiple and intersecting roles;

3. **Partnering**: a framework applied in a more formal relationship between local government and the other actors, often in larger municipal areas requiring formal agreements;

4. ***Linking and leveraging***: a forged relationship between the sectors to access external resources including funding

5. ***Internally integrated***: internal inter-departmental relationships within local government that develop and implement such social policies as social procurement and social inclusion, which may lead to organisational transformation: and

6. ***How can we help***: local government responds to Social Enterprise and Community Economic Development sector needs.

This typology does not recognise the possibility that local government may itself directly create social enterprises, nor does it distinguish between relationships that provide external support *to* social enterprises and those that seek to partner *with* social enterprises to achieve common goals. Nevertheless, Kain *et al.*'s typology is useful for conceptualising some aspects of local government-social enterprise relationships, particularly their level of formalisation. It appears from this typology that the size of local government does influence actions and outcomes; the larger the local government, the more formal the interactions with Community Economic Development and Social Enterprise sectors.

Within the third category of relationships, *local government partnering with social enterprises*, it is possible to observe formal partnerships resulting from local governments and social enterprises working together at the local level. The most common examples of local government-social enterprise partnerships are those that are developed through contractual arrangements, for instance, social enterprise partnering with councils to provide a waste management service. Often, these kinds of partnerships are based around formal contracts and instigated via a competitive tendering process. Thus, these are partnerships formed on a purely commercial basis, and subject to the terms of the contractual arrangement. Nevertheless, implementing social procurement policies at local government level can integrate social benefit considerations into the process of awarding contracts (see Victorian Government 2010; Social Enterprise Sydney 2012; Barraket & Weissman 2009). In the UK, a recent panel of social enterprise experts noted that 'Most Councils view all external providers as "commercial" and do not differentiate in the way they respond to social enterprise'. In response they recommended that:

> "My ambition would be to participate in open joint planning not merely to bid on a contract but to shape, innovate and build the service provision with full transparency" (Brazier, quoted in Groves 2011).

Social enterprise panellists also observed that:

> "It's time for social enterprises to get more involved in partnerships and consortia" (Floyd, quoted in Groves 2011).

And that:

> 'Outcomes are key for commissioning, but many of us set up social enterprises to do things differently and innovate… It's how we get beyond a dependency relationship with a local

authority to one which actually helps transform lives and communities" (Burke, quoted in Groves 2011).

These perspectives from UK social enterprises on working with local government suggest a deeper relationship than that which has been previously documented in the literature. Nevertheless, these perspectives, emphasising participatory, cross-sectoral partnerships, do resonate with ideas about local, place-based governance.

6.   Conclusions

While Barraket *et al.* (2010) identify that there are up to 20,000 Australian social enterprises, it is arguable that social enterprise in Australia is still very much an emerging sector. Nevertheless, the presence of diverse *organisations that use trading activities to achieve a social mission* is increasingly attracting the attention of policy makers, including policy makers within local government that are struggling with the twin challenges of organisational efficiency from the top down, and community well-being from the bottom up. In response, there is increasing theoretical interest in a transition from local government to local governance, and a practical interest in how *community* and *partnerships* can help local government meet its multiple demands into the future.

There are numerous documented examples of social enterprises and social enterprise 'sectors' or 'movements' overseas as well as in Australia. Social enterprises are by nature diverse and as a result it is difficult to generalise about their organisational forms, missions, or their ultimate social role. Nevertheless, a number of governments overseas are interested in supporting the actual and potential contributions of social enterprises. In Australia, there are also examples of Federal, State and local government involvement in various forms of support to the social enterprise sector, such as finance and social procurement policies. At the same time, it is important to highlight that neither in the scholarly nor practitioner literature is there much explicit discussion of the actual or potential relationship between local government and social enterprises. This is an area about which relatively little is known.

One conclusion from this work is that there is a need for more in-depth research to document the nature of on-the-ground relationships between local government and social enterprise. There is a need to explore, in detail, the nature of these relationships and how they may be contributing to local development outcomes. Preliminary evidence suggests that these relationships include, but extend beyond, a focus on 'social enterprise support' activities. Social enterprise support initiatives can be valuable, but it is possible to go further to conceive of more dynamic relationships between social enterprise and local government. This preliminary study suggests that these relationships may include local government itself creating a social enterprise, or local government partnering with social enterprises to support new approaches to local planning and service delivery.

Despite the lack of documented examples of these kinds of interactions, both local governance theory and the on-the-ground reflections of social enterprise practitioners emphasise that there are opportunities to deepen collaborative relationships between local government and social enterprises. Local governance theory (see for example Barraket & Archer 2009) and practitioner reflections (see for example Groves 2011; Morisette 2008) both suggest that more dynamic local government-social enterprise relationships can support place-based development processes. To progress these insights, however, it is necessary to gain a more in-depth understanding of where, on the ground, such relationships may already be present, and if so, what are the conditions under which local government and social enterprise can generate effective local development outcomes together. This in turn suggests an agenda for ongoing research on the relationships between social enterprise and local government.

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