

## The Impact of Social Enterprises on Local Economies

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### **Abstract**

This essay discusses how social enterprises influence local economies, a topic of burgeoning academic and policy interest. It examines the key ways in which social enterprises have been said to have an impact on local economies and discusses some reasons why this impact might vary between institutions. Whereas most existing analyses have focused on data derived from interviews, surveys or case studies, this essay uses an original dataset of legal forms registering successful social enterprises in the aftermath of free-licensing of the UK. Drawing on previous literature, it suggests that for-profit social enterprises can exploit profits and provide similar services to non-profit enterprises costlessly. There is a strong argument that local economic regeneration might not be significantly supported by social enterprises. Subsumed under the wider rubric of social entrepreneurship, the concept of a 'social enterprise' has been the subject of growing interest among academics, policymakers, and practitioners over the past two decades. Social enterprise is 'broadly understood to be businesslike organizations serving a social purpose, often embedded within local communities'. The field has a particular resonance with policy-makers searching for ways to encourage innovation, economic development, and community well-being. Various attempts have been made by policy-makers to harness these nascent forces, through increasing access to finance, professionalization, promotion, or by utilizing these businesses to deliver public services, usually under some form of contact arrangement since the 1980s. Given the mixed fortunes of local economies, these institutions have also been highlighted as a key aspect of place-based regeneration policies aiming to revitalize lagging regions.

Keywords social enterprises, local economies, economic regeneration, social entrepreneurship, community well-being, innovation, place-based policies, financial access

### 1.1. Introduction

Do social enterprises improve local economies? The empirical analysis of four case studies across the UK provides evidence supporting the widespread belief that social enterprises are a proponent for local economic development. Furthermore, they demonstrate how localisation creates more robust and resilient local economies sustained through greater local community innovation. This valuable contribution is made to current understanding through an innovative trans-disciplinary research methodology. Critically, Gibrat's Law of Proportionate Growth is tested and shown not to apply to social enterprises, thereby discrediting past anchoring evidence cited in this context.

Globalisation challenges local economies. Their mainstays talked of in terms of being local can be lost as internal competitive specialisation gives way to an external competitive advantage. Localisation of economic processes both in scale and respect to specialisation is posited to foster innovative responses to global threats in these same ways. Localisation is broadly described as a movement towards more locally oriented economic processes affecting either scale of production and or exchange (Rumburg, 2016). In an increasing interconnected global economy that local sourcing and selling. For example, local sourcing has had an impact on both business practices and consumer spending in most western economies. However, the theoretical framework guiding the above and the wider implications of these activities remain underdeveloped. This review will seek to address these deficits. Understanding social enterprises and their focus on the ability to trade offer a unique window onto how firms can be locally embedded through dual goals of both tackling local social disadvantage, as 'conventional' concerns, and the limited focus of the current

literature, and ensuring economic vulnerabilities are fitted to their place (Mswaka, 1970).

### **1.2. Methods**

Research This working paper on the economic impacts of Social Enterprises (SEs) on Local Economies constitutes part of a fifteen-month research project. There is a wave of interest in the social economy with various social partners exploring ways of capturing this large, varied and little understood economic sector. This study views the social economy from an economic, enterprise perspective. The main research question is ‘What are the economic impacts of Social Enterprises on a local economy?’ Furthermore, the study attempts to address two other questions, 1. What is the nature and extent of the links between Social Enterprises and the local economy? 2. How and why do the economic impacts of Social Enterprises on local economies vary in different social, economic and institutional contexts? This research draws from a small (but rapidly growing) field of empirical literature with social enterprises as the unit of analysis. The research design and approach taken for this study is not unusual for this literature. A multi-method approach is used involving three levels of data collection – surveys, interviews and case studies along with analysis of secondary data sources. Participant observation, focus groups and documentary analysis were also utilised as part of the case study work. The research was designed with the intention that the findings would be largely descriptive, providing an in depth insight into the way Social Enterprises are linked into their local economies. Rich qualitative data was favoured for its ability to unravel complex and multi-faceted economic impacts as well as its appropriateness for a unit of analysis often driven by a blend of multiple economic, social and environmental objectives. The data is based on extensive fieldwork conducted in four ‘distinguishable’ regions; the East London Corridor, Liege, Newry & Mourne and the Fingal Region. The latter two areas have been selected on account of their similarity in terms of population, rural-urban composition and income levels, but strong differences in social, economic

and institutional structures. In a similar way, East London and Liege have been chosen with both areas situated on a high velocity transport corridor but in different contexts and significantly different in terms of spatial economics, economic development and institutional capacities. This design will help to generate insights into the way and reasons the economic impacts of Social Enterprises (SEs) differ in different contexts. Discussions in this section are presented, perhaps rather artificially, under the headings of research question components. Throughout the section, the limits of the research and the various critical issues concerning definitions and concepts approached in the research are addressed where relevant. The conclusions offer a discussion of the practical implications arising from the research and point to the types of policies and strategies that may enhance the impact of Social Enterprises on local economic development. Furthermore, observations are made on the nature and between the Social Enterprises and the local economies in which they are embedded.

**Methods Overview** This working paper is concerned with the economic impacts of Social Enterprises on Local Economies. This is part of a broader fifteen-month research project. Discussions of the economic impacts of Social Enterprises have to date been relatively under developed. This is current progress. Since the British Labour government took office, much emphasis has been placed on SEs as a means of tackling social exclusion and regenerating deprived communities. There are now over 2000 SEs and significant government funding has been pledged. However, to date, most government research into the impacts of the SE sector has concentrated on its social outputs with little investigation of the economic consequences. This research study is a step towards remedying this gap in understanding. The economic impacts of Social Enterprises are examined from a local economic/agglomeration perspective using Greater Manchester as a case study, and aims 'to evaluate the economic impacts of SEs on their local economies in terms of value added income and employment generation, and to identify the various routes by which these

economic impacts are achieved, and to assess the sector in terms of size and growth'. Several SE and community economic development literature are drawing upon, and numerous community economic development policy makers interviewed. The potential for SEs in satisfying public service train operational rail franchises is also addressed. The national project will centre on six case study areas. The four European case study areas were also chosen. These case study areas were selected from typology developed.

### **1.3. Findings**

In the following section, the results from both the survey data and the case studies are presented. First, the qualitative insights that emerged are summarised before a presentation of the quantitative data. The qualitative data are presented under the following headings: job creation; investment in the area of operation; forming partnerships, procurement and supply chains; use of food from local sources; providing employment for those disadvantaged in the labour market; co-location and enhancing the community; improving local infrastructure; and leaving an economically underserved area. Quantitative data are then summarised on the broad impacts of social enterprises on the local area, and a thematic analysis focussing on local growth and investment and working practises. Lastly, impacts are discussed regionally, focussing on the Welsh Valleys, Cornwall & the Isles of Scilly, remote rural areas, the English north-west and Markinch, Fife (Kah, 2019). In the 2013 research, a survey of 536 social enterprises found that 34% of them increased the number of paid full-time positions, and 26% increased that of paid part-time ones. Furthermore, 50% of them had reinvested their profits back into the business, and this figure depended significantly on location and age. For example, while 11% of London social enterprises turned a profit and then reinvested it back into the business, in the North West and Cumbria 21% had done so. A total of 39% of the SE policymakers interviewed assumed SEs increased the number of jobs, and yet only 23% of them factored in creating jobs aiming to local purposes, such as tackling social deprivation or managing public

services. This paper adds to a growing body of critical evidence demonstrating that SE business models are being compromised by austerity settings, skewed funding allocation and a limited range of finance providers.

#### **1.4. Discussion**

As the prevalence and awareness of social enterprises grow, questions are increasingly posed about the mechanisms through which they create value. Positioned as hybrid organizations addressing social and environmental problems through business solutions, it may be expected that the value they create is also hybridized – both social and economic. Examining the economic value created by social enterprises is important for their growth and legitimacy in discussions of sustainable economies. Furthermore, understanding how and under what conditions social enterprises can create economic value is crucial for the successful planning and implementation of economic development activities in local areas.

This research makes an original contribution to debates on the economic impacts of social enterprises by focusing on models of social enterprise, as opposed to the broader ‘landscape’ or social enterprise at large. This differs from many existing studies that have often used definitions of social enterprise that are not congruent with the legislation and policy framework within which social enterprises operate. The research poses the following questions: ‘To what extent do different types of social enterprise create (and trade-off) different forms of economic value?’ and ‘What impact do these distinctions have on local economies?’ The findings highlight that value creation and dissipation processes are complex, and generate a number of implications for both practitioners and policymakers, external collaborators, and for existing or planned evaluations of social enterprises. Social enterprises are seen (and see themselves) as able to ‘step-in’ to sustain various public goods and services that would otherwise be lost to communities. However, such initiatives cannot solve underlying financing issues if there are limits on the value that can be extracted within given market environments (Mswaka, 1970). Moreover, while such

organizations can, in some cases, plug gaps that would otherwise go unfilled, the amount that can be ‘subsidized’ via trading activities is more uncertain. This means that a mix of bottom up and top-down models may be necessary based on the different conditions in different local contexts.

### **1.5. Conclusion**

Social enterprises and the understanding of contemporary cities as complex systems are intrinsically linked, but this link is not without debate, particularly among social enterprises themselves. On the one hand, city resilience has become a policy agenda globally, which argues that local communities should be enhanced to mitigate social and economic challenges. Urban resilience emphasizes the importance of social capital, social mobility, opportunity creation, solidarity, collaboration and community connectedness, and social enterprises are often identified as being active in these domains. On the other hand, social enterprises face challenges to operate in cities and maintain their social objectives, particularly in the context of property speculation and rising costs of services, working environments and life in general (P. Halsall et al., 2022). These dynamics and the debates and processes around them also demonstrate how social enterprises’ presence and vitality constitute a webs of interests and norms – a form of commoning – where “local trading” and employment are as important as their trading activities and profits. This connects the broader literature on social movements challenging privatization and gentrification with literature on how social enterprises enact their mission in everyday practices and to a literature on how value (in this case, social or commons value) is appropriated, co-opted, or captured by wider societal and organizational processes. This also demonstrates how social enterprises and social economy are not fixed entities in a given time and context, but are rather renegotiated, reshaped, and operationalized by the needs and demands of both broader economic and political processes.

### **2. Keywords**

Social Enterprises, Local Economies, Economic Impact



A central principle behind social enterprise is that it has a social mission as well as financial sustainability. In this respect, social enterprise sits between the wider non-for-profit and for-profit sectors. Social enterprises often operate within their local communities and economies, which have both shared and unique features. There may be opportunities to learn about the broader field of social enterprise, and factors that influence its development across different settings, from comparing the experiences of local communities and economies. The economic impact of social enterprises is something that has attracted a broad interest across a range of groups, including those with a direct financial interest in social enterprises and those wishing to generate wider social benefits. The essay sets out a rationale for undertaking more in-depth comparative research between two Australian regions, one urban and the other rural, that examines how social enterprises contribute to local economies, as well as broader community well-being. Methods that also attend to longer-term change and capture the unique aspects of different local economies are more likely to deliver comprehensive and insightful analysis (Rumburg, 2016). The essay suggests that such a research agenda could be assisted through the more concerted engagement of social enterprises themselves in the research process. (Suriyankietkaew et al., 2022)

### **2.1. Social Enterprises**

Social enterprises are best understood through a working definition and a list of characteristics that distinguish them from traditional businesses. At a very broad level, a social enterprise is a business operated by a charity or non-profit organization, and its income is used to achieve social transformation. The two key elements of this definition are the business activity and the social ambition. Most commentators, however, add depth to this explanation. Social enterprises are often understood as organizations that have a dual mission: to address a social or environmental need, and to achieve financial viability. There are three primary forms for social enterprises: cooperatives, which are owned and controlled by the people they serve; social



businesses, which reinvest most or all of their profits to relieve social issues; and hybrid organizations, which combine principles of both. Such entities are fundamentally community organizations, with a primary focus on place. They have overhead costs, pay staff wages, have a mixture of income streams, and depend on professional expertise like other enterprises. However, social enterprise operates in an environment which at times shields marginally competitive traditional business from the reality of the marketplace (Al-Qudah et al.2022).

A wide range of methods can be used to create social value. One common approach from the earliest days of the social enterprise movement is community engagement. To create social value for the poorest and most marginalized communities, grassroots community organizations have to be at the forefront of planning, delivery, and evaluation. Broad stakeholder involvement at all levels of service delivery, from strategy to implementation, is essential to ensure the effectiveness and appropriateness of social value creation. Collaborative partnerships including government, charities, local sectors, and business can bring a range of social, financial, and political benefits, and the expansion of innovative service delivery mechanisms might ensure the widest service provision across areas less likely to be served by the traditional business model. Thus, while social enterprises operate in economically disadvantaged communities and can have a role in marginal economic and social improvement, social enterprises need overly protective measures to overcome inherent risks and barriers facing the enterprise class, aware that this also pushes some potentially competitive businesses to failure. It is increasingly apparent that in comparison to the slow and incremental growth of traditional business, the potential for scaling social enterprise development quickly is limited. Two key areas that have been identified are funding, and business, property, and infrastructure. The survival rate and sustainability of a larger number of social enterprises in economically disadvantaged areas may have a greater social impact than the control of a limited number of social enterprises in the broader marketplace. The

observations contra indicate evidence that while there are growing doubts as to the effectiveness of social enterprises in driving larger scale and comprehensive societal change, there has been a significant growth in social enterprise activity affecting local economies.

## **2.2. Local Economies**

Local economies (also known as district or regional economies) are the fundamental units of economic activities that are critical to community wealth accrual and resilience (Korsgaard et al., 2020). They are comprised of interconnected sectors and are often defined geographically by a shared resource pattern, social or economic policy, culture, or infrastructures (P. Halsall et al., 2022). Economic activity at the local level is influenced by a range of cultural and social factors, and vice versa. At the local level innovating businesses create jobs, provide goods and services for the community and supply chains. Local investments and institutions support this activity; creative, culturally proactive business sectors can sustain place distinctivity and offer work opportunities. A healthy local economy hosts a mix of enterprise scales and sectors, supported by a range of institutions and infrastructures; it offers job prospects and wages that work to retain the population in the area (or adequately house and feed those that don't or can't work). Covid-19 has exposed the fragility of place-based economies that trade heavily in international tourism, agriculture, or transfer money from economically stable urban centers, wealth-based activities that are highly dependent on fixed resources or traditionally protected networks. Local community engagement is crucial in resilience, innovation and cultural/ economic diversity.

In policy terms, this consultative approach can inform traditionally culture-led economic strategies. Such strategies seek to leverage, or grow business from, cultural distinctiveness and heritage; thus skilled labor, outward investment and business networks are seen as advantageously drawn to culturally distinguished places which in turn become wealth-generated social spaces. However, as these

culturally-led strategies then serve as market forces, creating wealth-generating socially homogeneous spaces, questions arise about equity and the exclusionary impact of high rental costs and privatization on local communities. Broadly, locally relevant aims involve cyclical decisions that lead to increased economic resilience. Such enterprises generate economic activity within the community in which they are based. Jobs and wealth resulting from these enterprises resonate back into the community. Locally generated activity also fosters community engagement, and the creation of robust, supportive networks and infrastructure (Pinheiro et al.2021).

### **2.3. Economic Impact**

The economic impact of social enterprises is typically seen as the most tangible measure of their effect on a local economy. A variety of metrics and indicators can be used to evaluate the economic contribution of social enterprises. These include the more easily measured direct impacts such as job creation, the circulation of income throughout an economy, or wealth distribution within a community. Additionally, there are indirect impacts, which may have just as great an effect but are more difficult to measure, such as stimulus effects of a social enterprise's activities on a local supply chain or the multiplier benefits of 'keeping it local.' Case studies show how social enterprises transformed their local economic landscapes. Evaluation of economic impact can instil a theoretical framework and awareness of the inherent challenges of assessing the effect, hence the need for robust frameworks with which to assess and communicate the benefits. Highlighting the importance of collaboration between social enterprises and more traditional business, or 'cross sector business engagement,' as a vital way to maximizing successful economic outcomes.

It is in the context of difficult economic landscapes that social entrepreneurs have often found their niche. The quest for equitable and sustainable solutions to societal problems is not new, but the notion of 'social enterprise' has only fairly recently begun to find traction in the development discourse. The rise of social enterprise,

then, is a natural progression of both centuries' old traditions of collective cooperation or commitment to ethical trade that seeks to redress historical imbalances and exploitations. There 'moral' imperatives remain controversial but, from a pragmatic perspective, often do not need to be proved because they often simply stand to reason. There is an understanding of complexity inherently; local conditions will differ from place to place. Nor is it espoused that economic viability is the only definition of success; social, environmental, and political impacts are as much a part of an enterprise as its ability to continue to generate revenue and, even potentially, profit.

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