

## **Research Space**

Working paper

**Exploring the growth challenges of social enterprises: Identifying staffing, earnings-generation and communications as critical success factors**

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**Exploring the growth challenges of social enterprises: Identifying staffing, earnings-generation and communications as critical success factors.****Simon O'Leary**

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**Abstract:** How best to support the sustainability and growth of social enterprises is important to multiple stakeholders (Cavusgil & Knight, 2015; Thompson, Mawson & Martin, 2017). Evidence highlights that social enterprises struggle to scale-up, as reflected by a majority of UK-based social enterprises failing to breakeven. This research studies over one hundred social enterprises to explore the reasons for ineffective scaling and to identify where the priorities and challenges lie in achieving success. Recent literature and the Bloom & Smith (2010) SCALERS model (Staffing; Communicating; Alliance-building; Lobbying; Earnings-generation; Replicating; and Stimulating market forces) are used to determine key issues. The findings indicate that the effective scaling and impact (Kim, 2015) of social enterprises is reliant on three critical success factors: Staffing; Earnings generation; and Communications. Social enterprises need to optimise the recruitment and deployment of employees and volunteers, bearing in mind that they are essential for the replication of successes and in building alliances with networks of stakeholders (Stam, Arzalanian & Elfring, 2014). A robust earnings-generation model is essential and may require the development of innovative income streams. Effective staff and robust finances helping establish strong coalitions, joint-ventures and partnerships across the stakeholder spectrum.

**Keywords:** Social; Enterprise; Growth; Scaling.

**Word count:** 2,104.

## Introduction

It is evident that growth, scale-up or scaling, is a major issue for social enterprises (Tracey & Phillips, 2007; Casanovas & Bruno, 2013), with 75% of UK-based social enterprises losing money (Social Enterprise UK, 2015). Scaling may be described as enhancing the impact that a social-purpose organisation has with its principal aims (Bloom & Dees, 2008; Bloom & Chatterji, 2009), such scaling also having a catalytic social effect on other organisations, including funders (Bradach, 2010; 2014), government bodies and philanthropic foundations.

Limited research has been conducted on the factors affecting the scaling of social enterprises. That which has been done is largely based on case studies (Alvord, Brown & Letts, 2004; LaFrance, Lee, Green, Kaveternik, Robinson & Alarcon, 2006; Grant & Crutchfield 2007; Sharir & Lerner, 2006) and, although these approaches have produced some valuable insights, there has been relatively limited quantitative scaling research (Sherman, 2007). Therefore, a quantitative study on the scaling of social enterprises adds further value, especially as an effectively scaled social enterprise offers numerous benefits across society. Most of the research has been conducted in the US and so this study offers another perspective as it is based in the UK, the UK offering a favourable social enterprise environment, with skilled labour and a generally stable economy. It also presents an opportunity to compare and contrast studies (Thomson Reuters Foundation, 2016).

The SCALERS model (Bloom & Smith, 2010) is an established tool in scaling research, largely due to its robust theoretical foundations. Drawing key insights from strategic management, organisational behaviour and marketing fields, the model identifies seven key drivers that can be used to scale-up the impact of a social enterprise. The seven constructs of staffing, communicating, alliance-building, lobbying, earnings-generation, replicating and stimulating market forces are represented in the model. The purpose of this research is to evaluate the relationship between the seven constructs and social enterprise scaling in the UK. The research explores if there a relationship between the seven constructs and scaling social enterprise in the UK, using a sample of over one hundred UK-based social enterprises.

## Literature

Comparing scaling between commercial and social enterprises has been a common theme within social enterprise literature (Stevens, Moray & Bruneel, 2015), commercial meaning organisations that focus on financial rather than social profit (Gilbert, McDougall & Audretsch, 2006). The critical role that resources play in new venture growth is clear and access to financial, social and human resources has been highlighted (Shelton, 2005). Significant financial resources have been found to increase a commercial venture's chances of survival and growth (Bruderl & Schussler, 1990), these resources sometimes acting as a financial cushion at times of need, allowing them to survive the negative impacts of downturns and initial start-up costs. Importantly, greater financial resources are also said to endow commercial ventures with organisational legitimacy which acts as a facilitator in the development of important relationships with external resource providers. These include clients, government bodies, suppliers and financial institutions (Shelton, 2005).

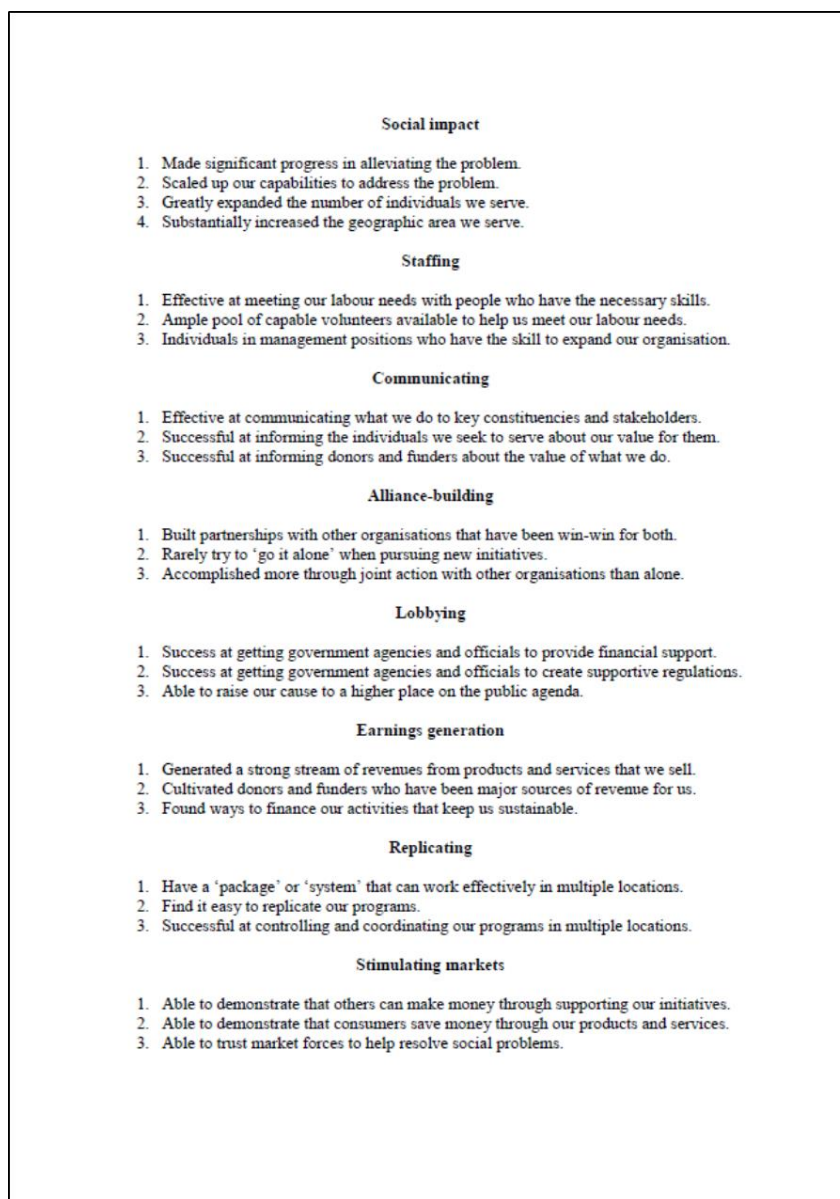
In general, commercial ventures seeking growth are faced with similar challenges to those of social enterprises with both parties aiming to effectively manage relationships with several stakeholders and finding avenues to mobilise resources and attain sustainability (Bloom & Smith, 2010). However, social enterprises face several additional challenges that commercial ventures may not face. Observing the network of stakeholders that surround a typical social enterprise highlights several unique challenges (Bloom & Dees, 2008). Social enterprise networks are often unable to provide a sufficiently robust backbone of economic support and their scaling strategy often relies on altruism, volunteers, compassion and social value generation to garner the necessary support (Bloom & Smith, 2010). Also, the external environment in which a social enterprise operates often has insufficient infrastructure in place to build upon. Infrastructure plays a key role in facilitating growth and includes basic utilities, transport, raw materials, brokers and retailers. In many instances, supplier and distributor infrastructures have to be developed from scratch and cannot be contracted or attained. In addition, the beneficiaries or clients of the services and products provided by social enterprises tend to be disadvantaged; poor, of ill health or under-educated. These groups are unlikely to be able to pay the

total cost for the goods or services being provided. Consequently, an immediate financing gap exists that social enterprises need to tackle.

These differences highlight some of the major challenges faced by social enterprises in their endeavours to achieve scale. While there are several similarities between the scaling of social and commercial enterprises, the former faces challenges that the latter can avoid.

### Methodology

Social enterprises were targeted through a directory of UK-based social enterprises: Buy Social Directory (2019). From more than eight thousand entries, over one thousand social enterprises were contacted through social media to request participation in the research. Over one hundred responded and completed an online survey of 32 questions (24 Likert-style and 8 multiple-choice and text questions, as outlined in Figure 1) using the online electronic service Survey Monkey (2019). Each respondent was asked to reflect on the last three years of the organisation and to rate each of the issues in comparison to other similar organisations.



**Figure 1: Outline of survey undertaken by the social enterprises.**

To increase accuracy, multiple questions helped measure key factors about scaling and the SCALERS constructs being used. Further questions collected demographic data on the respondent and their organisation.

## Findings

The correlations between the seven scaling variables are outlined in Figure 2.

Scaling variables	1	2	3	4	5	6	7	
1 Staffing	0.35 **							
2 Communication	0.35 **	0.45 **						
3 Alliance-building	0.39 **	0.28 *	0.29 **					
4 Lobbying	0.26 **	0.18	0.39 **	0.22 *				
5 Earnings-generation	0.44 **	0.45 **	0.45 **	0.33 *	0.26 **			
6 Replicating	0.40 **	0.42 **	0.22 *	0.22 *	0.05	0.25 *		
7 Stimulating market	0.42 **	0.13	0.16	0.10	0.30 **	0.19	0.33 **	
Standard Deviation	9.0	7.1	7.0	6.2	9.3	7.8	6.8	8.9
Mean	2.8	2.4	1.9	2.2	2.7	2.2	2.3	2.5

Note: N=103 \*P<0.05 \*\*P<0.01

**Figure 2: Results on the correlations of the SCALERS.**

The results highlight those variables which have the greatest correlations with the achievement of the effective scaling of a social enterprise. The data can be grouped into three categories; noticeable impact, minor impact and minimal impact:

- Noticeable impact: Staffing, Earnings-generation and Communications.
- Minor impact: Alliance-building.
- Minimal impact: Replicating, Lobbying and Stimulating markets.

## Conclusions

The single most important factor in achieving the desired impact and growth, or scaling, of a social enterprise is its staff. Effective staffing, in both effective recruitment and retention, plays a critical role in achieving success in the next most important areas; earnings-generation and communications. A robust, yet innovative and flexible, approach to the generation of earnings, ideally from a balance of sources, is essential for the well-being of the organisation and its client base. Such strengths require active and meaningful communications across the network of stakeholders; again, highly dependent on staff and the systems and processes established for sharing information. After these, alliance-building is the next best correlator with the effective scaling of a social enterprise and achieving this is catalysed to some extent by the top three of staffing, earnings-generation and communications. The remaining three issues (ability to replicate, effective lobbying and stimulating markets) have, in comparison, a relatively limited direct correlation with scaling up a social enterprise. It is likely that, if the major matters are in place, the remaining factors, such as replication, lobbying and stimulating markets, will in any event be notably enhanced but they, on their own, do not appear to be key drivers of successful scaling.

This research suggests that, to achieve the long-term sustainability and growth or scaling of a social enterprise, there needs to be a particular focus on creating the right blend of staff, both employees and volunteers. Special attention must also be paid towards staff and procedures that help to ensure the creation of a robust and growing earnings stream and equally strong communications with the spectrum of stakeholders involved. These then also helps lead towards achieving the continued building and strengthening of strong alliances with key partners in the social enterprise's orbit. This suggests that, in essence, establishing a strategy and plan that focuses on earnings, communications and alliances, and then recruiting the right blend of direct and indirect personnel to achieve those aims, is likely to help a social enterprise establish its presence and grow in as efficient and effective a manner as possible.

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