

Chapter 17

Public Services Procurement: Third Sector Social Enterprises Perspectives

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ABSTRACT

The chapter examines small third sector social enterprises' (TSSEs) perspective in gaining access to public services contracts. The UK government aims to increase, the role of social enterprise as a vehicle to deliver public services directly to citizens and local communities in areas such as housing, welfare-to-work, education, health, and social care. To understand TSSEs' experiences of gaining access to public services contracts, face-to-face interviews were conducted with managers and chief executive officers (CEOs) using an interview guide. Empirical evidence obtained suggests that some procurement policies and processes are impacting on small TSSEs' organizational development, growth, management, and career development of staff. The qualitative findings of the study add to new knowledge, and help to explain challenges facing small TSSEs in the changing context of public services procurement process.

INTRODUCTION

Social enterprises are businesses that trade and use their profits to bring social, economic and environmental benefits to our society; they are designed to meet social needs as well as to achieve commercial viability (Crossan, Ibbotson, & Bell, 2011). As such, they are largely independent of both the public and private sectors. There are several approaches to the development of social enterprises; such as: (1) the 'Social Innovation' approach; (2) Earned income approach; (3) Social businesses social approach (Lecy & Young, 2014). The 'social innovation' approach considers innovation as a central focus of social enterprises, therefore, social enterprises should attempt to achieve some form of social goals by implementing innovative ways and new ideas to tackle social issues. The key concept of this approach, involves continuous innovation, recognizing and pursuing opportunities to serve the social mission and create and sustain social value. ACS, Boardman, and McNeely (2013) argue that social value creation through the social innovation as a method of creating social value as oppose to beneficial exchanges.

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Therefore, social enterprises which seek business solutions to social problems must foster innovation, thus, identifying innovative and effective initiatives on resolving social market failures and creating opportunities to add social value, maximize social impact and make a societal change (Nicholls, 2006; Di Domenico, Haugh & Tracey, 2010).

The 'Earned Income' approach is related to the use of commercial activities by third sector organizations for survival. Boschee and McClurg (2003) argue that 'earned income strategies' is the opportunity in which non-profit organizations can earn an income concurrently with their existing activities. Opportunities for 'earned incomes' can range from tiny exploitative profit turning activities to aggressive exploitations in order to achieve higher gains in total revenue from earned incomes. Kerlin (2006) indicates that the 'earned income' approach gained particular importance throughout the 1970s and 1980s in the USA. Kerlin (2006) reported that from 1982 to 2002, the U.S saw commercial revenue of non-profit organizations increase by 219%. Defourny and Nyssens (2012) argues that non-profits began to develop 'social enterprise' concepts as a response to the withdrawal of state funding during the late 1970s; which resulted in reduction in welfare and governmental funding. This led third sector organizations to seek for alternative methods of funding such as commercial activities. The change triggered third sector organizations to approach consultancy firms for advice and support for their growing interest towards business ventures.

Teasdale (2012) categories 'earned income' as a social enterprise discourse and identifies that this approach incorporates the fundamentals behind theory resource dependence, which resides within both strategic management and organizational theory. Drees and Heugens (2013) define resource dependency theory (RDT) as a longstanding framework which attempts to understand organizational-environmental relations. RDT assumes that all organizations are critically dependent on other organizations for the provision of vital resources, thus often a form of reciprocal relationship occurs between organizations. Thus, organizations are continuously challenged and affected by the internal and external environment in which they work in. As a result, they manage resources effectively in order to maximize strategic control over crucial external forces (Drees & Heugens, 2013). Therefore, third sector social enterprises that adopt 'earned income strategies' and 'social purpose business ventures' are effectively influencing their environments in order to provide the resources required to meet their strategic objectives.

The 'social purpose business ventures' approach is an alternative approach which differs to *earned income strategies* in terms of purpose, expectations and structures (Boschee & McClurg, 2003). Social purpose business ventures are often larger scale ventures with more ambitious goals. *Social purpose business venture* is often a step to increasing revenue with the purpose of growth and increasing profitably of a non-profit's organization. Within this approach third sector organizations often create a complete separate entity which resembles a third sector organizational structure with a separate workforce and board of directors.

The Transforming Government Procurement Strategy (HM Treasury 2007), launched as part of the 2007 Comprehensive Spending Review, was initiated to raise procurement standards, develop the skills of procurement professionals, drive value for money through collaborative procurement and improving the delivery of projects. However, in the UK the 2008 recession led to a belief that the state is not an efficient provider of social services, coupled with the promotion of notions of self-sufficiency for communities and community organizations. This led to an increasing interest in social enterprise as a "third way" for the provision of social services (Martikke & Moxham, 2010; Maher, 2015b). Although there has been acceleration in the development of social enterprises in the UK, most are small (Social Enterprise UK, 2016). Nevertheless, they make important contributions to the economy and are embedded in their

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