



Identifying the Characteristics of Rural Social Enterprise in Scotland

**‘Where enterprise meets community
development’**

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In partnership with SGSSS



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I. Acknowledgements

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1. INTRODUCTION

Rural areas have been identified as an ideal context for studying social enterprise because 33% of Scottish social enterprises can be found serving 17% of the Scottish population (Social Value Lab, 2019). For these reasons, the rural context is considered fertile ground for social enterprise (Steiner, et al., 2019). This report seeks to understand the ways a rural context influences social enterprise and highlights the characteristics of rural, remote and island social enterprise in Scotland.

This report will explain how our mixed-method evidence base led us to draw conclusions about the shape of the model and its key characteristics. We have identified the following features to be of importance; a community development lens, collectively led, well connected social capital, provide vital services, small markets but innovative and diversified income streams as the key characteristics of a rural social enterprise and will refer to this cluster of characteristics as the rural social enterprise model.

In order to set the parameters of this research we infer that a high number of rural social enterprises may adopt this rural social enterprise model, but do not believe that all adopt this interpretation. Nor do we assume that individual characteristics cannot be found in urban areas. We do not seek to make judgements on that, rather see it as a potential source of further research. However, we do believe the cluster of characteristics that create this model are heavily influenced by the structural factors of rurality and that context matters.

Although this research was limited by a 3-month funding budget, and was executed remotely during national lockdown, we believe these preliminary findings are accurate and comprehensive. Moving forward they will create the seedbed for future research.

2. METHOD & DATA COLLECTION

A mixed method approach was pre-designed by InspirAlba and the Scottish Graduate School of Social Sciences for a 3-month research project. This comprised of 3 broad stages.

Stage one: Understanding the rural context

- 9 interviews pre-questionnaire
- Examination of the academic literature on rural social enterprise
- Rural industry reports
- Learning exchanges
- Rural social enterprise network
- Rural research group
- Initial analysis

Stage two: The questionnaire

- Our questionnaire collected 79 responses. 67 were used in the analysis of characteristics. We rejected all questionnaires that were not a social enterprise or did not serve a rural community. We did not anticipate our data collection would coincide with the 3rd national lockdown. This may account for a smaller sample size.
- Analysis

Stage three: Post questionnaire interviews and testing model

- 3 interviews post questionnaire to share characteristics
- Analysis
- Produce report and present findings

3. THE RURAL SOCIAL ENTERPRISE MODEL



3.1 COMMUNITY DEVELOPMENT

Interestingly, our survey illuminates that social enterprises in rural areas are focused on community development. That is, rural social enterprises are motivated by community development and/or prefer to use a community development approach in their application of social enterprise. They are motivated to develop and sustain local services rather than being primarily focused on economic or social return. This is different from an urbanised lens that tends to promote the adoption of enterprise and commercialisation in their application of social enterprise or a focus on mission.

Our survey revealed the importance of community development to rural social enterprise and scored it a significant 4.7 out of 5. To break this down further, 100% of respondents scored 3 out of 5 or higher and 75% of respondents gave

a rating of 5 out of 5. For this reason, we have a high degree of certainty in this finding.



We discussed the link between rural social enterprise and community development and interviewee 1 said this:

“You cannot deliver it without having a community focus approach.....in urban area’s you have a denser population and broader demographic within a certain geography, so that serves you well in developing your single issue social enterprise, but you can’t do that in rural communities.... You need community development principles to be applied to any economic development or it will fail ... I tried to do a bit top-down stuff in the beginning and fell flat on my face”.

That means, when the population of an area is larger and denser you can create social enterprise around a single issue such as homelessness or mental health. However, when the population and therefore markets are smaller, community development approaches work best.

Interviewee 3 had this say:

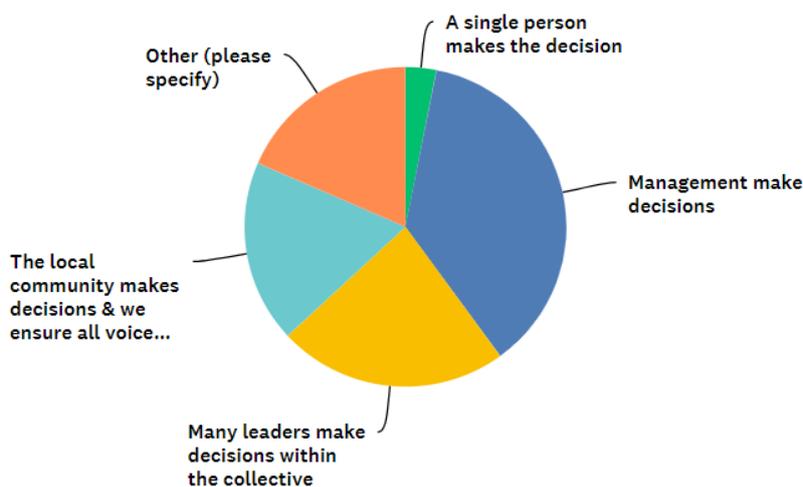
“You can definitely see a community development and person-centred approach...but I think you can see this in smaller community-based organisations in urban areas too”

Therefore, rural social enterprises are motivated by community development and also apply community development principles. This is important because it influences the way they operate and the choices they make. The following sections will go on to explain what this means.

3.2 COLLECTIVELY LED

24% of all social enterprises in Scotland are community enterprises and are concentrated in rural areas (Social Value Lab, 2019). This tells us that rural areas tend to favour a single form of social enterprise. A community enterprise means activity is exclusively associated with a particular settlement and democratically owned by people living in that settlement. Therefore, social enterprises in rural areas are community focused but also emphasising that social enterprises are community initiated (Steiner, et al., 2019). Suggesting that rural social enterprise use a collective approach.

Our survey revealed 42% of social enterprise use a collective approach to decision making.



Furthermore, our interviewee highlighted that in addition to collective decision making, they can identify patterns of collective responsibility. They said:

“It’s great that the collective voice is there, but the other thing is responsibility, it is shared throughout”

This is interesting because it follows a pattern of collective leadership. Collective leadership describes a group of people working together towards a shared goal, shared decision making and shared responsibility (Collective Leadership Institute, 2021). It is different from traditional models of leadership that tend to have a hierarchical management structure, where the management team or founder makes the organisational decisions.

The interviewee went on to say:

“Because there's a very limited pool of resources and skills [in rural areas]. In order to create a social enterprise, it often needs time and input from many different people”

This indicates that limited resources encourage community members to participate in the development of social enterprise so they can better serve their community, and this creates social cohesion. When compared to urban areas interviewee 3 said this:

“I think there's more apathy in urban areas within communities in terms of getting something going... if you take the population of a particular rural area, there's probably a higher percentage of people within that area who are going to make something happen, you've not necessarily got the same percentage of the community within a particular urban area”.

Therefore, the rural context creates high levels of civic participation and it manifest as collective leadership.

3.3 PROVIDE VITAL SERVICES

Research suggests social enterprise is formed in response to market failure (Social Value Lab, 2019) and has remained a topical debate since. Market failure happens when for-profit firms fail to provide particular goods and services efficiently through the market, and when the government does not intervene (Beaton & Kennedy, 2021). Often private and public sector retrenchment is quoted as one reason for market failure (Steiner, et al., 2019).

Our survey found significant levels of market failure in rural areas when 74% of respondents stated that their service is vital, and if it was removed no alternative is available for the community. However, less than 23% state this is in response to retrenchment, suggesting some rural areas have not been served by private or public sector organisations at all. This includes services like public transport, petrol filling stations and local shops, which are basic necessities in urban areas. However, it is also secondary specialist services like, counselling support, domestic violence support, further education, and adult

learning. Interviewee 2 was keen to share why public and private sector do not serve rural areas.

“Services don't exist in rural areas because it's not profitable enough for private sector enterprises to deliver those services, and in many cases, they don't exist because it's too expensive for public sector too”

Despite the level of expertise found in the public and private sector industries, they cannot find a way to serve rural communities with an economic model. Highlighting traditional economic models are not fit for the rural context. Interviewee 1, went on to discuss the impact of market failure on rural social enterprise:

“You cannot provide a joined-up package of support for your clients because there is nothing else on the ground... so you have to provide that joined up package of support yourself.”

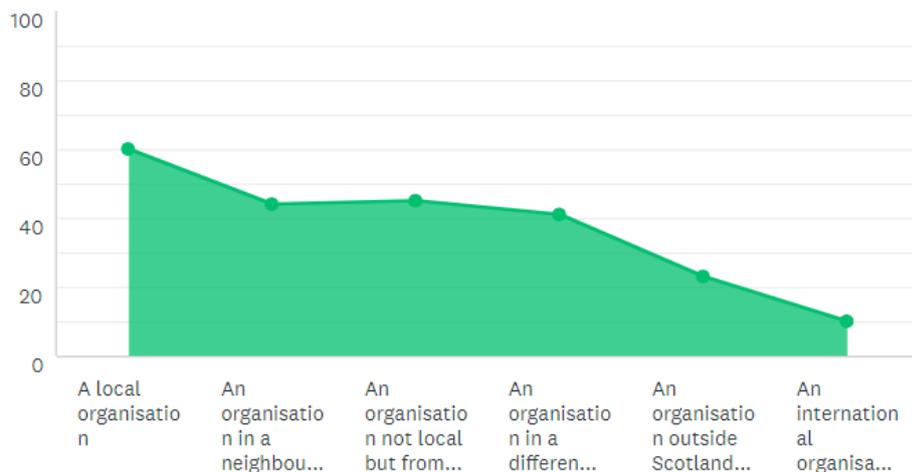
This indicates that extensive market failures influence the adoption of a person-centred approach, because there is no alternative providers or specialised support at a ground level. Yet, here lies the success of rural social enterprise, since they assist underserved areas, it is likely they prescribe high levels of social value. This is important because they provide value to areas of the market that need it the most.

3.4 SOCIAL CAPITAL

Rural communities are often described as being tight knit, and likely to help each other for the common good of the community (Steinerowski & Steinerowska-Streb, 2012; Mandl, et al., 2007). This creates strong ties between community members and community organisations that come to rely on each other. Working this way fosters high levels of trust (Skerratt, et al., 2012), civic participation (Dale & Onyx, 2005) and brings down competitive barriers that may be found in urban areas. In light of this, rural areas are considered to have denser social networks than urban areas (Hofferth & Iceland, 1998). These traditional rural strengths, such as sense of community, social cohesion, and mutual knowledge (Shucksmith, et al., 1996), are reflected in the way social enterprises behave in rural areas, and this has been identified as a source of untapped potential (Steiner & Teasdale, 2019). Social enterprises can draw on resources across networks to overcome population

sparsity, and other structural factors like poorer infrastructure, and uneven labour (Steiner, et al., 2019). Moreover, limited resources encourage social enterprise to work with each other, in order to gain access to a range of resources (Di Domenico, et al., 2010).

Our survey revealed that 92% of rural social enterprise have worked with at least one other local organisation in the last 12 months. Therefore, rural social enterprises are well connected.



In light of this, we asked our interviewees why rural social enterprise are motivated to work with each other, and interviewee 3 had this to say:

“It can increase capacity and scope. It is about addressing the need rather than creating work..... why do something or explore a whole thing yourself if somebody is already there who can do that? There’s a shared understanding.... You can connect and do it together”

Rural social enterprises are likely to work together to increase services for the local community, and in doing so increase capacity. It also suggests that there are less competitive barriers in rural areas. In light of that, we asked, is this different from urban areas? Interviewee 3 said:

“There’s definitely more competition in urban areas, if we take food distribution as an example, which has been a big focus during COVID, I heard it being described as organisations clambering over one another to provide distribution, even organisation who had never been involved in food provision before. So, there’s been a lot of duplication [in urban areas], rather than going

to provisions who know and understand food distribution....so there's definitely more competition."

This suggests that rural social enterprises experience less competitive barriers, and as a result are likely to work together to provide vital services. Also, their approach is efficient, and reduces the likelihood of duplication. Therefore, it is unsurprising that rural social capital has been identified as an untapped source of potential (Steiner & Teasdale, 2019).

3.5 SMALL MARKETS BUT INNOVATIVE

Being place focused suggests that social enterprises in rural areas are motivated to serve a particular settlement (Social Value Lab, 2019). As a result, strategies must be executed within the boundaries of the community.

Our survey found that 54% of rural social enterprise serve a single local authority area or less. Therefore, rural social enterprises have a localised outlook, and as a result serve small markets.



This is important because traditional growth strategies tend to promote entering new markets and push the social enterprise beyond a particular settlement. If we took Uist (a group of islands in the Outer Hebrides of Scotland) as an example, it would push them off the island, and this would

result in an agency problem that can lead to organisational failure. Other traditional growth strategies suggest increasing the number of customers in an existing market (Johnson, et al., 2011), in order to benefit from cost savings associated with economies of scale. However, due to the sparse population found in rural areas, it limits the potential market size (Steiner, et al., 2019) and the potential to create trading income. Therefore, traditional growth strategies are less applicable in a rural context, and we know this to be true because public sector and private industry have tried before and failed (Hazenbergh, et al., 2016). Therefore, in order to overcome limited trading income found in small markets, rural social enterprises are likely to develop scoping out strategies (Steiner, et al., 2019). That is, when a social enterprise executes a variety of services under a single infrastructure it produces cost savings. To further illustrate this point, interviewee 2, highlights how this works in practice:

“It is all under one roof, the nursery is open during the day, in the afternoon you have adult support services and at the same time it can be a community centre, so it is the integration of different services. It is about thinking in a smart way, and utilising local resources in the most efficient way”

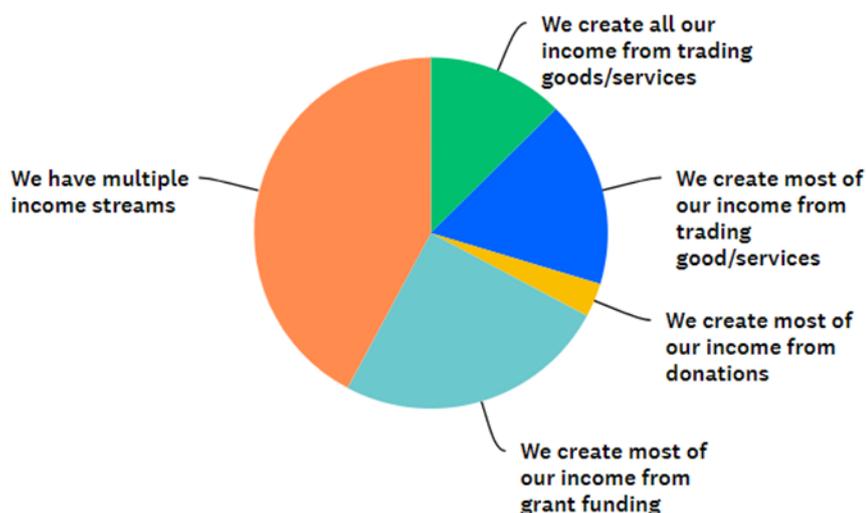
Therefore, scoping out executes a variety of services and/or products under a single infrastructure, that could not be sustained independently in rural areas with small markets. In light of that, cost savings are created. Therefore, rural social enterprise use innovations to overcome small markets. These include, strategies of scoping out, as described in this section, but also the aforementioned, social capital that can increase capacity, sharing responsibilities and being efficient when serving needs.

3.6 DIVERSIFIED INCOME

Our final characteristic is concerned with the way that rural social enterprises create sustainability. The traditional and economic lens tends to promote the commercialisation of social enterprise through earned income strategies. However, contemporary evidence-based research is starting to emerge that argues that a significant portion of social enterprises prefer to diversify income

streams because it reduces overreliance on a single income (Powell, et al., 2019).

Our survey found that 42% of rural social enterprises adopt a multiple income stream approach to sustainability. This is significant because only 12% create all their income from trading, 17% create most of their income through trading, 25% create most of their income through funding and 3% create their income via donations. Therefore, a highly significant proportion of rural social enterprises adopt a more diversified method. Indicating that a sole focus on trading income, is a narrow view of sustainability.



Interviewee 3 was keen to share that a diversified approach increases resilience:

“As soon as you rely on one source of income, you become quite vulnerable, in fact very vulnerable and that's not good”

Furthermore, when a social enterprise uses a person-centred approach it reduces financial stability, and this may further encourage diversification of income streams: Our interviewee said this on the matter:

[when you serve] people who are farthest away from the labour market, who have no confidence, no self-esteem, disabilities, mental health issues, violence and abuse history or current, single parenthood, no education, or no access to educational opportunities, they have alcohol dependency or social work intervention... they need specialists support, activities that have a recreational,

therapeutic, and educational dimension. We have to put all that support in place for them, as well as getting them through our own programme, so our profit margin goes down”

This suggests that when higher levels of intervention are required, it negatively impacts the bottom line, and as a result social enterprise may opt to diversify.

4. CONTEXTUALISING FINDINGS

In light of these findings, we asked our interviewees how likely is it for social enterprise to create financial independence in areas of the market that require substantial intervention? Interviewee 3 said:

“I would say it would be the minority and that is including urban areas, that would be completely self-sufficient and generating enough income to keep going without tapping into funding”

This tells us that social enterprises do not have a fair and equal competing environment, and that context matters. A critical argument within the social enterprise space is, ‘can they be considered a social enterprise, if they do not create most of their income from trading?’ Interviewee 3 shared:

“I think people have very strong views on that. Some would say yes, and others would say, you're not a social enterprise [if you do not create financial independence via trading]. This has been an ongoing tension that we're going to discuss at a national level... However, having a focus on trading does encourage third sector organisations to build capacity in that area, they might not be able to get all their income from trading, but might manage to get some”

Therefore, we asked our interviewees ‘when a social enterprise leans towards social value but is financially lean, how does this affect intermediary support?’ Interviewee 3 said:

“Any investment that's going into social enterprise support in Scotland shouldn't be around that [trading levels] and shouldn't be included within the strategy for supporting social enterprise, that's a different thing and should be looked at separately. But there are some national organisations that have a different take on that”.

This implies that intermediary support is not consistent. This is of great concern because when intermediary organisations do not agree, or understand the rural context, they cannot give the correct support, and instead tend to revert to an economic model of social enterprise, and that model does not fit the rural context.

Therefore, we asked our interviewees how the mismatch in expectations impacts on the rural social enterprises, and interviewee 1 painted a grim picture:

“You are told you're a failure [by intermediary support services], because you've been person centred, and community focused, [rather than a focus on trading income]. It has been the hardest thing I've ever done..... And if I had known how difficult it would have been, I wouldn't have done it ...There was no recognition of the issues of rural social enterprises when I started out, I think it's beginning to emerge now, but only after a huge amount of campaigning and banging of the drum”.

This is fundamental, as it demonstrates that a lack of appropriate support can threaten the aspirations of rural social enterprise, by implying that a social enterprise is only considered successful if it has strong trading income.

Therefore, we asked our interviewee if a financially lean, but value rich social enterprise is successful. Interviewee 1 said:

“I think if your organisation is washing it's face, and is delivering social value, they should be heralded as an absolutely fantastic success”

This implies that trading income should not be the only measurement of social enterprise success, and that the delivery of social value and trading income should be of equal importance. Furthermore, it suggests that social enterprise success means different things to different actors within the landscape. The dominant discourse or lens tends to promote a strong focus on commercialisation and economic independence, but this does not always reflect what is happening at ground level in different contexts. Therefore, context is of extreme importance. Interviewee 2 had this to say:

“Context matters, one village on one island might be very different to another Island, there might be different resources, different infrastructure, so many different things. You have to consider these contextual factors as very unique to a specific place and think about the model that can work for you”.

Therefore, context must be taken into consideration when discussions of rural social enterprise take place. We have identified patterns of diversifying income streams, partnership work, efficiency, shared responsibility, and innovation, as potential sources of sustainability in rural areas. This rural model may better serve the harsher conditions rural social enterprises face.

5. CONCLUSION

The rural context tends to apply a community development lens to social enterprise, and this focus impacts on rural social enterprise values, strategy, and behaviour. This focus is different to an urbanised lens that tends to promote the commercialisation of social enterprise. Rural social enterprises lean towards community development because their geographical positioning means they operate in areas of severe market failure and are sparsely populated. This limits potential market size and the opportunity for economic growth. These structural factors tend to reduce the effectiveness of traditional growth strategies, and if pursued could lead to organisational failure. Despite this, the rural social enterprise sector is resilient, and appears to be thriving since it is home to 1/3 of all social enterprises in Scotland.

Their incredible social capital can intuitively respond to community needs. This organic process ensures that all activity is vital, and multiple layers of value are created; economic, social and community. Furthermore, they execute innovative approaches such as scoping out, and this ensures they can survive small markets and serve areas of market failure.

Rural social enterprises have a very good understanding of their needs and operate in a way that is effective in their context. Lack of understanding by intermediaries is of concern because it restricts their potential to thrive when vital support and resources are funnelled into more commercial models. Therefore, having a better understanding of the rural context will bring many mutual benefits. Firstly, it will help to provide effective intermediary support, and this will help policy makers to strengthen the rural economy. Secondly, as world leaders of social enterprise we have an opportunity to study the rural cluster and transfer knowledge to other areas in Scotland, particularly around social cohesion, social capital and co-designing services for more effective and efficient change in areas of deprivation and market failure. Scotland is already seen as a world leader in terms of social enterprise, and this could be transformational for the future of our country, as we strive to adopt new economic models and create a well-being economy.

6. FUTURE RESEARCH

These preliminary findings are the seedbed for future research on rural social enterprise. Future research should:

- Further test our model and its characteristics in rural Scotland. Moreover, to strengthen distinctiveness (or not) research should aim to understand if, how, and why individual characteristics appear in urban areas, and how these impact on the application of social enterprise.
- Rural social enterprise tends to draw its practices from different domains, i.e., enterprise, community development and social policy. Therefore, a collaborative and multi-disciplinary research approach could further highlight the ways rural social enterprise thrive and create synergies between research fields.
- Understand how rural social enterprises utilise their social capital for survival, by looking at the relationships between an ecosystem of social enterprise in rural areas. For example, do they share resource and/or create partnerships and/or co-design services? Doing so would reveal the true value of rich networks.
- To understand the emergence of a diversified income stream approach. Under what conditions is a social enterprise likely to diversify and why?
- Scotland is considered a world leader of social enterprise; therefore, how can other countries learn from us, and can we find evidence of the rural social enterprise model across global rural communities? What are the similarities and what are the differences?

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