Social enterprises as new institutions in environmental governance

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Declaration

I, Joanna Henry, declare that this thesis is a result of my research investigations and findings. Sources of information other than my own have been acknowledged and a reference list has been appended. This work has not been previously submitted to any other university for award of any type of academic degree.

Signature

Date...20/05/2017
I. Acknowledgments

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II. Abstract

The overall purpose of this study was to find out what the strengths and limitations of environmental social enterprises (ESEs) were and how they could contribute to creating more sustainable societies. Using institutional economics as a framework, this study explored three main research areas. These were; what characterises ESEs, how do they function, how do they perform, and finally, what are their key strengths and limitations as an alternative institution for environmental governance. This study took an explorative approach and carried out nineteen in-depth, semi-structured interviews with the founders of ESEs. The interviews were transcribed, coded and thematically analysed in accordance with the research questions.

Environmental entrepreneurs have distinct motivations which they integrate into the running of their businesses. These motivations go beyond a desire to maximise profits to encompass a concern for the common good. This was evidenced by individuals desire to help people, to improve the environment and to strengthen the economy. ESEs see the bigger picture by working locally to effect wider change and set a strong example to influence industry. To ensure their businesses are financially sustainable, environmental entrepreneurs maintain a balanced focus between their missions and their financially sustainability. We also found that ESEs are well-adaptable. By employing different strategies such as changing or establishing new companies with different legal forms, ESEs could access different benefits or overcome certain constraints that enabled them to work more effectively. Finally, ESEs are out performing traditional firms in their commitment to the environment and their communities, for instance, by cultivating a low impact ethos throughout their businesses or supporting wider causes that are not for commercial gain. However, some ESEs may struggle to survive or to create a surplus to reinvest in their missions. Our findings demonstrate that these businesses have an important role to play in shifting society onto a more sustainable track, however, government policy will need to make great strides to provide these businesses with the support they need to fully flourish.
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1. Introduction

1.1. Problem

Endless growth and economic expansion has led to unprecedented changes in the state of the planet, so much so, that some estimates now place the global ecological footprint at 30 per cent higher than the Earth’s biological capacity, to produce for people’s needs (Sukhdev 2009 in Jackson 2009). While such estimates are difficult to make, there is little doubt that we are approaching important limits, some may even be passed. Indeed, many societies’, have come to view economic growth as synonymous with progress, prosperity and well-being (D’Alisa et al. 2015; Jackson 2009). However, six decades of economic growth has not brought about equal benefits; huge disparities in wealth means that the majority of the world’s population live without basic entitlements to adequate food, education, healthcare and employment (Robinson 2009 in Jackson 2009). These issues have led to increasing calls for transformation in the way that societies are organised, including new governance structures and institutions that create positive social and environmental outcomes (D’Alisa et al. 2015; Jackson 2009; Haapenen and Tapio 2016; Vatn 2015).

Increasing pressure on firms to do good and act responsibly has led to initiatives such as corporate social responsibility (CSR). Put simply, CSR refers to the integrating of social and environmental benefits into business strategies. However, while research suggests that there have been some improvements in this area, CSR can be considered more of an “add on” as opposed to a core aspect of many businesses (Vatn 2015 p.395), with many CSR efforts being small and focused on becoming ‘less unsustainable’ (Ehrenfeld 2008).

Against this backdrop and the realisation that ‘business as usual’ is not enough, new forms are emerging that place social and environmental good at their centre. One such model, that appears to have thrived in recent years is social enterprises. Social enterprises have been viewed as a new way of doing business, in the sense that they combine the social logic of a non-profit with the commercial logic of a business (Lee & Battilana 2014; Ferri and Urbano 2011; Vatn 2015;). These businesses transcend traditional for-profit/ non-profit boundaries and are set up to help solve societal problems (Schaltegger et al. 2016; Lundstrom et al. 2013). Through innovation, social entrepreneurs strive to create or enhance new products, processes or services (Bell 2012). The social enterprises that this research is focused on, are those that primarily work with environmental issues, hereafter referred to as environmental social enterprises.
(ESEs). ESEs have been described as having the potential to create a major shift towards a more sustainable economy (Schaper 2002). These businesses have been found to operate in a different way, with less concern for economic success and greater concern for the environment, and long term consequences of their business activities (Allen & Malin 2008 p.828; Harvey 2007).

However, ESEs may face considerable challenges in relation to legal form (Borzaga & Defourny 2001), finance (Bell 2012; Gibbs 2009) and impact (Hockerts and Wustenhagen 2010) bringing into question their potential to subsist and generate wider change. For instance, many scholars have drawn attention to the conflicting nature of combining business with social and economic goals which may challenge environmental enterprises legitimacy and survival (Kirkwood and Walton 2014; Dixon & Clifford 2007; Lee & Battilana 2014; Lundstrom et al. 2013). ESEs may also struggle financially through lack of finance (Gibbs 2009), investment, (Bell 2012) or awareness of financial matters themselves (Randjelovic et al. 2003; O'Rourke 2005). Another issue is their potential for scaling up. Some environmental entrepreneurs have been found to place the environment before profits, (Kirkwood & Walton 2014) or to incur greater costs to protect the environment (Choi and Gray 2008). Hockerts and Wüstenhagen (2010) found that some entrepreneurs perceived growth as a threat to their standards. For these reasons, more research is needed to find out about the motivations, function and performance of ESEs.

It is important to mention that there is a substantial amount of research on the motivations of social entrepreneurs, however, few studies have looked at the motives of those that work specifically to address environmental issues (Allen & Malin 2009; Bell 2012; Kirkwood and Walton 2014). This research responds to a lack of empirical evidence in this field (Gibbs 2009; Hockerts and Wustenhagen 2010), including the need to better understand what ESEs do and how they differ to conventional business models (Bell 2012; Schaper 2002). In particular, under what institutional conditions do ESEs survive while meeting social and environment goals (Lee & Battilana 2014; Hall 2010)? And how does the structure help or hinder ESEs aims’ (Vickers 2010)? Institutional economics is a useful framework for exploring these dynamics, however, few studies have applied it within the proposed area (Lee & Battilana 2014; Meek et al. 2010; Ferri & Urbano 2011). This study intends to fill this gap by using the latter framework to generate important insight into the potential and barriers of ESE institutions.
1.2. Purpose

The purpose of this study is to find out about the strengths and limitations of ESEs, including how they can contribute to creating more sustainable societies. This study focuses particularly on ESEs based in the United Kingdom (UK). Using institutional economics as a framework, this study will explore what characterises these businesses, how they function and perform, and finally, what their key strengths and limitations are, as an alternative institution for environmental governance.

1.3. Research questions

Given my purpose, the following research questions have been developed:

i) **What characterises environmental social enterprises?**
   What are the entrepreneur’s motivations? What do environmental social enterprises do as a business? What environmental challenge do they seek to address and how?

ii) **How do environmental social enterprises function?**
   How are they financed? What legal form have they chosen and why? To what extent does the social enterprise model\(^1\) and legal form help or hinder the enterprise’s aims?

iii) **How do environmental social enterprises perform?**
   What business practices do they have? Do they face conflicting goals? If so, how do they make decisions in the face of such conflicts? What are their views on upscaling? What other barriers do environmental social enterprises face that influence their performance?

iv) **What are the strengths and limitations of environmental social enterprises considering the findings?**

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\(^1\) The social enterprise model is defined as an institution that combines the social logic of a non-profit with the commercial logic of a business to solve societal issues (Lee & Battilana 2014).
1.4. Limitations

This study is based on ESEs working in the United Kingdom (UK). The considerable increase of social enterprises in the last decade has led some to view the country as a pioneer for these businesses. There have also been several developments to support the social enterprise sector such as new legislation like the Social Value Act and the community interest company model. In response to the lack of empirical data in this area (Gibbs 2009), a total of nineteen in-depth interviews were carried out with ESEs across the UK, with a focus primarily on for-profit ESEs.

1.5. Structure of the thesis

The structure of the thesis is as follows: chapter 2 provides a background based on a literature review of the research topic; chapter 3 discusses relevant theories and concepts, specifically in regards to institutional economics theory and environmental governance; chapter 4 presents the methodology of the research and highlights the limitations of the study. In chapter 5, the results of the study are presented. Chapter 6 then responds to research question iv) regarding the strengths and limitations of ESEs. Finally, the paper concludes with the implications of the findings and suggestions of areas for further research.
2. Background

With global environmental challenges surmounting, more and more people are recognising the need to transform our societies, and particularly current ways of doing business. This demands new structures and institutions that create more beneficial outcomes for both people and the environment. The following section provides a background of the topic based on a thorough review of the literature. Firstly, 2.1. will discuss the emergence of social enterprise. It will then define the concept of social enterprise and provide an overview of the sector within the UK. Section 2.2 then moves on to discussing the subgroup of ESEs. In 2.2.1. ESEs are defined. Section 2.2.2. will address research related to the motivations of the subgroup. Section 2.2.3. will focus on function and finance. Finally, 2.2.4. will discuss research related to the performance and potential for upscaling ESEs.

2.1. The emergence of social enterprise

Scholars have long drawn attention to the problems of exponential economic growth and the accelerating depletion of the worlds resources (Meadows 1972). It was over 40 years ago that Limits to Growth highlighted that with constant growth trends in population, resource consumption and production, the planet would reach its ecological limits within the next 100 years (ibid.). Characterised largely by the drive to maximise profit, the market economy is reliant on high levels of consumption, social inequality and ecological debt to survive (Simms 2005; Vickers 2010). Even with the increasing emphasis of sustainable development in the last few decades, economic growth has become the mainstay of national and international policy, and sustainable development synonymous with sustainable growth (Haapanen & Tapio 2016). However, as awareness of social and environmental issues rises, more and more people are recognising the need to transform current unsustainable business practices (Hall 2010).

One of the ways businesses have sought to become more environmentally friendly in their activities is through corporate social responsibility (CSR). CSR broadly refers to a firm’s attempts to integrate social and environmental benefits into their business strategies. Research shows that CSR has undergone several shifts, from a focus on maximizing shareholder wealth, to recognising the firm has a responsibility to many different stakeholders (Epstein 1976; Zahra et al. 2008). Though research suggests there have been some improvements in this area, CSR is viewed by many with scepticism. Some critics have pointed to the few number of businesses
involved (Utting 2008), businesses complying due to regulations, or engaging in ‘greenwashing’ (Bell 2012).

One explanation for the lack of progress with CSR is because it can be considered an “add on” as opposed to a core aspect of many businesses (Vatn 2015 p.395). Shareholder interests are the dominant interests and are perhaps more likely to place other concerns, such as maximizing profit, before environmental responsibility (ibid.). The idea of CSR as an add on, is also reinforced by the considerable focus in the CSR literature on how going ‘green’ can increase competitive advantage (Hall 2010 p.441). The problem in this instance is trying to solve environmental problems with the same logic of maximizing profit, this is arguably what sets social enterprises apart from traditional business models.

Social enterprises have been viewed as a new way of doing business, in the sense that they combine the social logic of a non-profit with the commercial logic of a business to varying extents (Ferri and Urbano 2011; Lee & Battilana 2014; Vatn 2015). These organisations are renowned for their drive ‘to make a difference’ in the world rather than purely create profit (Chell 2007). Since the early 1990’s, social enterprise has attracted a flurry of interest from scholars, government, practitioners and the public (Lundstrom et al. 2013). Although social enterprise is a relatively new concept, it is not a new phenomenon (Vickers 2010). Individuals and organisations have throughout history, played an important role in developing innovative solutions to present-day social or environmental challenges. Organisations such as charities, cooperatives and mutual societies are examples of this (Dees 2001 cited in Ferri and Urbano 2011; Lundstrom et al. 2013).

There are three key factors that have contributed to the rise in social entrepreneurial activities around the world, firstly, the slowdown of public services has led to an increase in unmet needs (Light 2011). Secondly, global disparities in wealth and income distribution have created the need for a new business paradigm (Bornstein 2007). Thirdly, social enterprises have arguably emerged out of a need to be more financially self-sustaining, rather than compete for grants with the non-profit sector (Perrini 2006). To add to this, the increasing urgency that climate change presents has led to governments aiming to achieve a transition to a low carbon economy and society (Vickers 2010). Consequently, ESEs are emerging out of the necessity for a new kind of business model, one that places sustainability at its core (Allen & Malin 2009). The next section will briefly define social enterprise and provide an overview of the sector within the UK, before discussing ESEs, the subgroup that this study is focused on.
2.1.1. Defining social enterprise

There is no clear-cut definition of a social enterprise and the concept widely differs across cultural context and academic discipline (Friedman & Desivilya 2010.). For instance, in the United States, social enterprises have been referred to as b corps and hybrid organisations, reflecting their mixed motivations and the grey area of non-profit/for-profit space they operate in (Boyd et al. 2009; Chew 2008; Sepulveda 2009; Vickers 2010). European notions often conceive social enterprises as a new way of doing business (Ferri & Urbano 2011). Social enterprises also take various legal forms. For example, social enterprises may be registered as companies limited by guarantee, industrial and provident societies or community interest companies, they may also choose to register as charities (Spear et al. 2009). This study focuses on the sector within the United Kingdom (UK) and broadly defines social enterprise as organisations that use business strategies to solve social or environmental problems. Social enterprises typically have “a clear social or environmental mission, generate the majority of income through trade, and reinvest the majority of profits into the business (rather than paying out to shareholders)” (Cabinet Office 2016 p.9).

2.1.2. Social enterprise in the UK

In the UK, social enterprise has played an increasingly important role in public policy (Spear et al. 2009). Since 1997, social enterprise has been a tool of the New Labour government, and later the Conservative government, to improve public service provision in a mixed social/private economy (DTI 2002, HM Treasury 2005 cited in Vickers 2010). Further developments by the government in 2002 led to the formation of the Social Enterprise Unit (SEU), and later, the Social Enterprise Action Plan, intended to enable the growth of social enterprises across the economy (Spear et al. 2009). Furthermore, new legislation brought into effect in 2013, means that for the first time, the Social Value Act 2012 will require “all public bodies in England and Wales…to consider how the services they commission and procure might improve the economic, social and environmental well-being of the area” (Social Enterprise UK 2012b p.2). The act is aimed at generating greater social impact and is part of the governments push to enable more social enterprises to deliver public services (Cabinet Office 2013). Recent statements from policy-makers also suggest greater recognition of the contribution of social enterprises for carrying out environmental-related activities, particularly in the areas of waste and recycling, housing, transport and regeneration projects (Vickers
This concurs with a recent study which found that 85% of social enterprises actively aimed to minimise its environmental impact to a greater (44%) or lesser (41%) extent (Social Enterprise UK 2015).

This fast-changing context has enabled the social enterprise sector in the UK to thrive, and some have described the country as a pioneer of social enterprise (Social Enterprise UK 2015). However, changing definitions of social enterprise used by the government has created debate about the actual size and scope of the sector (Spear et al. 2009). Two studies were completed by the SEU in 2004 and 2005. The earliest report, estimated there to be 15,000 social enterprises in existence, while the 2005 survey came to a figure of 55,000 social enterprises (IFF Research Limited 2005 in Spear et al. 2009). The fluctuating figures are a result of changing criteria used to define social enterprise, particularly regarding legal form and percentage of income generated through trading activities (Spear et al. 2009). The former study was also restricted to businesses registered as companies limited by guarantee and industrial and provident societies, leaving out several potential social enterprises registered as other legal forms (Vickers 2010).

The most recent survey does not do much to clarify these figures, Social Enterprise: Market Trends (Cabinet Office 2016) reported there to be 741,000 social enterprises in 2014. This study employs a different set of criteria altogether, and includes social enterprises with and without employees (ibid.). Similarly, it is difficult to ascertain what the make-up of the sector is. According to Vickers (2010 p.9), out of the 15,000 surveyed in the earliest study, “just 5% identified the “green environment” as their sole focus, although 23% also stated that they seek to help the environment”. Of the areas these social enterprises worked in, a large number focused on recycling and sustainable resource use, whilst others undertook activities related to improving urban environments, conservation and environmental education (ibid.). Unfortunately, the most recent survey does not provide enough information on the different sectors to identify how many social enterprises have aims addressed at the environment. These findings reinforce the need for further research on the make-up of social and ESEs.
2.2. Environmental social enterprise

2.2.1. Defining environmental social enterprise

The focus of this study is environmentally motivated social enterprises, that is, social enterprises that start a business with environmental aims as their main objective. These businesses may work in a range of different areas such as recycling, renewable energy or sustainable agriculture (Schaper 2010). Like social enterprise, the study of environmental social enterprise lacks any one definition and is still in its early stages of development (Kirkwood and Walton 2014). A wide array of terms such as ‘sustainable entrepreneurship’, ‘enviropreneurship’, ‘ecopreneurship’ and ‘green entrepreneur’ have been used by different authors to describe entrepreneurship carried out through an environmental lens (Schaltegger 2005 cited in Holt 2011). The literature and to some extent, this study reflects the complexities of who or what should be studied, the entrepreneur or the enterprise (Schaper 2010). Although this research focuses particularly on the enterprise, there is some overlap with the entrepreneur to some degree. However, for clarity, this paper uses the overarching term of environmental social enterprise to refer to a business that is set up with pre-existing green values (Kirkwood and Walton 2014) and that seeks to be a model of sustainability (Isaak 1998). Like the ‘green-green businesses’ described by Isaak (2002), these businesses are viewed as an ideal, and therefore, it may be that the ESEs are not entirely operated as green, but overall, strive to generate a positive environmental impact (Schaper 2010).

ESEs are seen as having the “potential to be a major force in the overall transition to a more sustainable business paradigm” (Schaper 2002 p.6). Schaltegger (2002 p.46) for instance, claims that “ecopreneurs destroy existing conventional production methods, products, market structures and consumption patterns and replace them with superior environmental products and services”. Similarly, others have viewed ESEs as the response to market failures and imperfections (Cohen & Winn 2007; Dean & McMullen 2007). While these views focus on “the market dynamics of environmental progress”, (Schaltegger 2002 p.46) others view ESEs as representing a new institutional structure, embodying a unique set of values that could potentially change the way that business is done (Allen & Malin 2008).
2.2.2. Motivations

One area where ESEs are unique is in their motivations. Compared to traditional firms, environmental entrepreneurs have been said to run their businesses in a different way and with “a different organising logic” (Hart 2006; Tilley and Parrish 2006 cited in Gibbs 2009 p.64). In a similar vein to social enterprises, a number of scholars have found environmental entrepreneurs to have strong ethical principles (Linnanen 2005) and be driven by more than solely maximizing profits, such as a concern with the businesses environmental impact and for wider societal issues (Allen & Malin 2008). Others have noted differences in ESEs operation, including “donations to environmental causes, employee-friendly working conditions…and a concern for the longer-term implications of their business activities (Harvey 2007 in Gibbs 2009 p. 64). However, these characteristics are not clear-cut and environmental entrepreneurs may well have mixed motivations (Walley & Taylor 2002). They may also face conflictual goals between business and the environment, an issue which will be explored further into the paper.

The considerable focus on typologies of environmental entrepreneurs illustrates the grey area that these businesses operate in. For instance, Isaak (2002) distinguishes between what he refers to as ‘green businesses’ and ‘green-green businesses’. The former, which is already in existence, undertakes a process of ‘greening’ activities over time either for marketing or ethical purposes, whereas the latter, is established from the outset based on green principles and processes, and strives “to transform a sector of the economy towards sustainability” (Isaak 1998 cited in Isaak 2002 p.82). Several scholars have shown entrepreneur’s motivations to exist on a spectrum, ranging from business concerns to a desire to change the capitalist system (Taylor & Walley 2004) and environmental concern and ambition for market growth (Schaltegger 2002). Others have illustrated that “individuals moved between ‘green’ and ‘conventional’ business, evolving over time” (Gibbs & O’Neil 2014 p.1102).

A critique of these studies is that many of them are based on limited numbers of case studies, which leads one to question the usefulness of these findings (Gibbs 2009). In addition, most of the literature reveals little about how the institutional dynamics influence ESEs potential. In other words, they do not tell us how such motivations impact on ESEs as an institution, and thus their management, performance and ability to succeed (Lee & Battilana 2014). In other words, “simply stating that economic, social and environmental aims are combined within the firm’s organisational logic and practices does not get at how (and if) this is achieved, nor how
this connects to any subsequent wider social changes” (Gibbs 2009 p.65). This is reflected by the considerable focus within the literature on the environmental entrepreneur as opposed to the enterprise. In sum, understanding how ESEs motivations impact on the management, function and performance of the business is an important area worth studying.

2.2.3. Finance

The latest report by Social Enterprise UK (2015), the main membership body for social enterprises operating in the UK, reported that 73% of social enterprises earn more than 75% of their income from trade and have diversified income streams. However, getting finance remains one of the biggest barriers to social enterprises’ growth and ability to survive. Though the problem of securing finance is well-known, there is little research that explores this issue either theoretically or empirically in relation to ESEs (Bergset 2015; O’Rourke 2005; Randjelovic et al. 2003). A key issue in this context is that social and ESEs diverge from traditional models of business and therefore struggle to secure the same finance, although this is for various reasons (Bergset 2015). Social enterprises in general get a lot of public funding as many of them work in education, employment and social care sectors. ESEs work in a range of areas and may be financed differently. The following paragraphs address the subject of financial barriers in relation to social enterprises, due to limited data on ESEs as a subgroup. First, it is necessary to provide a brief overview of the types of funding available more generally to social enterprises.

Sources of funding can differ a fair amount between social enterprises and their more ‘conventional’ counterpart. For traditional entrepreneurs, venture capital or bank loans are two of the most important types of funding (Denis 2004 cited in Bergset 2015). While loans are important for social enterprises, grants either from charities, non-governmental organisations or public authorities, play a more prominent role, reflecting the businesses social dimension (Cabinet Office 2016; Sunley & Pinch 2012). The public sector is also a key source of income, with 59% of social enterprises involved in some form of trade with the public sector (Social Enterprise UK 2015). Other sources of funding perhaps common to both types of businesses are capital from the company founder, their family and friends, crowdfunding, in which many individuals will donate small sums of money towards projects, or ‘bootstrapping’, which refers to a business that is set up using limited funds (Bergset 2015). One other financial resource,
particularly prominent among traditional entrepreneurs is ‘angel investors’, high net worth individuals who often have substantial business experience (ibid.).

ESEs may face a number of challenges when trying to obtain funds, whether that is through lack of finance (Gibbs 2009), investment, (Bell 2012) or awareness of financial matters themselves (O’Rourke 2005; Randjelovic et al. 2003). For example, the latest study carried out by Social Enterprise UK (2015 p.5) found that “44% of social enterprises sought funding and finance in the last 12 months and 39% of social enterprises believe its lack of availability is a barrier to their sustainability”, this contrasts with just 5% of small to medium enterprises who perceive lack of finance to be a barrier. Growing competition for grants is also likely to make acquiring funding difficult. Furthermore, the fact that the public sector is an increasingly important market for social enterprises could make them more vulnerable to cuts in public spending (Social Enterprise UK 2015).

There are several reasons why social enterprises find it difficult to attract investment. Firstly, social enterprises deviate from typical legal forms, the combination of social, environmental and economic goals may deter investors, because of potential lower rates of return (Bergset 2015). Conflicts of interest may arise between the social entrepreneur and the investor unwilling to compromise on their environmental or economic aims, an issue that will be discussed further in the next section (ibid.). Secondly, ESEs are also more likely to take longer to break into the market which would then discourage investors looking for faster returns on their investment (Bell 2012; Randjelovic et al. 2003). Scholars have also pointed to the difficulty for ESEs to find investors who share their motivations, while investors may also face challenges in finding businesses they are keen to support or who have an understanding of financial markets and the investors interests (Linnanen 2002).

In the UK, social investment has gained momentum in recent years. Impact investors or venture philanthropists, which refer to investors who intend to generate a social, environmental and financial return, may show an interest in ESEs based on generating greater societal impact (Emerson 2003, Hebb 2013, Nicholls 2009, John 2007 cited in Bergset 2015). However, even with these developments, social enterprises can struggle to cover their costs and generate surpluses either for reinvestment towards their social mission or to strengthen their financial position (Vickers 2010). Social Enterprise UK note that the barriers to accessing social investment are “likely to be about navigability, accessibility and confidence than cost of capital or legal structure” (Social Enterprise UK 2015 p.61). It comes as a surprise that considering
the financial barriers facing ESEs, that more research has not been carried out in this area. The following section will explore the implications of these issues on the growth and performance of ESEs.

2.2.4. Performance and scaling up

Social enterprises are setting new standards for business, and have been shown to have increased business optimism and strong ambitions to grow (Social Enterprise UK 2015; Cabinet Office 2016). However, their activities are often small-scale and localised (Amin et al. 2002 cited in Lyon and Fernandez 2012). Close to half (49%) of all social enterprises are five years’ old or less and with considerable financial barriers stacked against them, a key concern is how to generate larger scale impact (Lyon and Fernandez 2012; Social Enterprise UK 2015; Vickers 2010). This study refers to scaling up as ESEs growing in numbers or size, taking over a larger fraction of the total market. However, the concept is understood and put into action in different ways, for some, growth is sought similarly to a mainstream business, for instance, by increasing the number of employees, diversifying into new markets, or externally, through expansion, replication or alliances (Lyon and Fernandez 2012; Tracey and Jarvis 2007, Sharir and Lerner 2006). Others may be more influenced by alternative ideas of growth and sustainable practices (Vickers and Lyon 2013).

A fair amount of research has looked at the growth potential and barriers facing ESEs (Hockerts and Wüstenhagen 2010; Holt 2011; Kirkwood & Walton 2014; Vickers & Lyon 2013). A key focus and barrier that arises is from the entrepreneurs mixed motivations. Hockets and Wüstenhagen (2010) highlight that environmental start-ups, which they term as ‘Davids’, are small, exclusive and highly sustainability-focused, but they have no intention on growing because they believe it would compromise their values. Similarly, Kirkwood and Walton (2014) carried out a large-scale survey with environmental entrepreneurs on their motivations, management and growth plans of the business. Out of 84 respondents, they found 70% had ambitions to grow, however, like the ‘Davids’, ESEs had “strong goals and vision regarding sustainability but, due to their size and often limited growth, the breadth of impact can be relatively limited” (Kirkwood and Walton 2014 p. 47). Money-making featured low on ESEs motivations and many sought to place the environment before profits when feasible (Kirkwood and Walton 2014). While this study provides worthwhile insights into ESEs motivations, what is less clear is how their decision-making impacted on the development of the business.
For example, some research indicates that ESEs may incur greater costs to protect the environment (Choi and Gray 2008). And while ESEs strong ethical stance can enhance the credibility of the business (Linnanen 2002), it can also lead to tensions when trying to balance environmental and commercial goals. Conflicts of interest between the entrepreneur and the investor can result in ‘mission drift’ whereby ESEs are forced into compromising their environmental values for financial aims (Bergset 2015). Consequently, ESEs may restrict growth by retaining control within the company, out of fear that it may impact on their standards (Vickers and Lyon 2013; Howard & Jafee 2013 cited in Bergset 2015). Equally, investors may be less inclined to invest which may contribute to ESEs small size and limited growth. Growth from a local to a wider geographic area can also result in a loss of local focus or autonomy (Vickers and Lyon 2013).

Furthermore, there are various examples of ESEs being bought out or changing dramatically after being acquired (Boyd et al. 2009; Holt 2011; Schaper 2002). For instance, a twenty-year longitudinal study by Holt (2011) found that one third of ESEs had failed and eleven per cent had been acquired by ‘traditional’ companies. Holt (2011) notes that several ESEs faced difficulty at the expansion stage of the business and a large number (thirty percent) remained at the survival stage of development. This is particularly problematic given that the vast majority of social enterprises are small to micro-enterprises (Cabinet Office 2016; Social Enterprise UK 2015). These issues call for further exploration into what the conditions for scaling-up look like and how they can take place.
3. Theoretical framework and concepts

3.1. Institutional economics theory

Using institutional theory, this study aims to investigate how social enterprises relate to the environment, with a specific focus on how the motivations and structure of the institution influences their function and performance. The previous section illustrated the degree of research on the motivations of ESEs, however, these studies have not been from an institutional economics perspective, which arguably offers a more complex understanding of the role of institutions. In addition, those that have utilised this theoretical framework, have mostly focused on how environmental factors have influenced social enterprises emergence, as opposed to looking at the institutional dynamics or structure of the enterprise, and how this affects ESEs operation and survival (Lee & Battilana 2014; Meek et al. 2010; Ferri & Urbano 2011). The said studies also employ a different and arguably more limited definition of institutions. The following section reaffirms the importance of utilising this approach and defines the key concepts for the study, beginning with the role of institutions.

3.1.1. Understanding institutions

Institutions are defined differently depending on how we interpret human behaviour (Vatn 2005). From an individualist perspective, institutions are typically viewed as a constraint on human action, they have no influence in shaping the individual or the goals they pursue, instead, “choices are driven only by the concern for maximizing individual utility” (ibid. p.2). This type of thinking is particularly prevalent among neoclassical economists and is the basis behind traditional businesses and the market economy (North 1990 cited in Vatn 2005). In contrast, the social constructivist perspective considers institutions as having a fundamental, interconnected relationship with human behaviour and is the dominant thinking behind classical institutional economists. Institutions are seen as “products of social acts” and equally, “individuals are a product of the institutions of the society in which they are raised or live” (Vatn 2005 p.57). From this viewpoint, choices surpass the concern for ‘I’ and are “understood as influenced also by a concern for the collective – for the other” (ibid. p.2). This research project takes the latter stance as it allows for a much deeper understanding of institutions and
their influence on motivating different types of behaviour, a point that will be returned to in the next section.

Institutions have been defined as “settled habits of thought” (Veblen 1919 p.239), as a “reciprocal typification” (Berger and Luckmann 1967 p.72), and as the “rules and conventions of society that facilitate coordination among people regarding their behaviour” (Bromley 1989 p.22). The first two perspectives are similar in the way that they view institutions as a process, however, Berger and Luckmann’s definition places more emphasis on action and “which acts should or could be done in specific situations”, what can be considered the normative element (Vatn 2005 p.11). Bromley’s definition is explicit in this sense and adds two other important dimensions, specifically, the purpose of and power of institutions. For Bromley, institutions not only constrain but enable choice and simplify behaviour (op. cit.). In addition, the choice of institution is key to the protection of interests, this element is an important distinguishing feature of this understanding (op. cit.).

A fourth definition can be seen to draw on aspects of each of these contributions (Vatn 2005). “Institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour” (Scott 1995 p.33). According to Scott, the cognitive aspect refers to how we perceive and create meaning, while the normative aspect “introduces a prescriptive, evaluative and obligatory dimension into social life” (Scott 2008 p.428). In Scott’s words, regulative elements stress “rule-setting, monitoring and sanctioning activities” (ibid. p.428). To summarise these understandings, this paper defines institutions as:

the conventions, norms and formally sanctioned rules of a society. They provide expectations, stability and meaning essential to human existence and coordination. Institutions regularize life, support values and produce and protect interests (Vatn 2005 p.60).

Like Bromley, this definition emphasises the importance of power and the role of institutions in protecting and promoting different interests. It also, similarly to Scott, underlines the ability of institutions to create different logics and types of action. This forms the subject of the next section.
3.1.2. Institutions and rationality

To reiterate, understanding institutions involves understanding choices and the influence of the former on human behaviour (Vatn 2005). According to neoclassical economic theory, human behaviour is rational in the sense that individuals seek to maximise their individual utility, meaning what is best for themselves according to their preferences, it is also independent of social context (ibid.). Clearly, this viewpoint has several limitations, the first and foremost being that individuals do not always act in a selfish manner and that in some circumstances it may be counter-intuitive to do so. The institutional perspective however, views “rationality as defined by the institutional setting within which choices are made”, that is, it recognises that different structures support different actions, moving the concept beyond the purely individualistic ‘I’ terms to take into account ‘We’ terms of behaviour (Vatn 2005 p.113). Examples of social rationality include acts of a reciprocal nature motivated by cooperation, such as in a community, or a normative nature based on “what is the right thing to do” (Etzioni 1988 cited in Vatn 2005 p.123). It follows from this that changing the institutional structure has the potential to alter the motivations and thus the action of different behaviours (Vatn 2005). This is what makes social enterprises an interesting case in point.

3.2. Social enterprises as new institutional structures

The current economic system, the market and traditional firms can be understood as operating according to an individualistic rationality, maximising individual utility while driving economic growth and expansion. This logic is also reflected by the culture of consumption and materialism that has become the norm in many societies (Jackson 2009). Social enterprises present a fascinating alternative that “transcends narrow for-profit and profit-maximizing models” (Schaltegger et al. 2016 p.5). While traditional businesses and social enterprises are similar in producing wealth, they differ substantially in their goals, purpose and structure potentially fostering more ‘We’ rationalities such as those based on norms and reciprocity. For instance, earlier research found an interesting link between family business characteristics and social entrepreneurs, both of whom shared a mix of self-interested and altruistic behaviours (Mustakallio 2002 in Linnanen 2002). However, as illustrated previously, social entrepreneurs operate in a grey area. They may face “conflicting internal pressures between the logics that they combine”, or they may “have mixed motivations…and it is often difficult to separate
these” (Glynn 2000; Heimer 1999; Zilber 2002; cited in Lee & Battilana 2014 p.3; Walley & Taylor 2002 p.37). Many scholars have drawn attention to the conflicting nature of combining business with social and economic goals which may challenge social enterprises legitimacy and survival (Kirkwood and Walton 2014; Dixon & Clifford 2007; Lee & Battilana 2014; Lundstrom et al. 2013). The competing logics that social enterprises combine cannot be explained by neoclassical economic theory.

In this context, the legal form is essential to facilitating different types of behaviour. Different legal structures influence the way that the business is managed, and especially the rules regarding ownership, control and distribution of profits (Fici 2015). Consequently, each legal structure can be considered to encourage and constrain different types of action. The table on the following page highlights the key features of five main legal structures. As illustrated, each legal form will influence how the social enterprise operates. For example, the CIC model² is ruled by company law and is taxed as a regular company, however, it differs to a traditional business as its purpose is to serve a community interest which it must fulfil by law. CICs must satisfy a community interest test and provide an annual report to the CIC regulator to demonstrate how the company has met their objectives (Unltd n.d.). An additional protection is the asset lock, which requires any assets or profit to be reinvested into the company or used in pursuit of the social enterprises mission (ibid.). Consequently, one would expect the CIC model to be driven by a social rationality because of the company’s purpose (and profit motive) is to benefit society.

Other dimensions depicted in Table 1 relate to the ownership, control and finance of different legal forms. The key concepts and legal forms are summarised in brief below.

Board of directors – A company would typically have a group (board) of directors who are legally responsible for running the company and making sure company accounts and reports are in order (Gov.uk n.d.).

Shareholders – Own a certain share of the company.

Members – Differs somewhat between IPS and CLG, see legal form descriptions below.

² A CIC (CLS) can distribute profit to its owners but it is capped at 35% while a CIC (CLG) must use all profits either for reinvestment into the company or in pursuit of their social mission (Fici 2015).
Table 1: Main legal structures and features (adapted from Social Enterprise UK 2012 p.31 and Unltd n.d.).

<table>
<thead>
<tr>
<th>Legal structure</th>
<th>Ownership</th>
<th>Control</th>
<th>Ownership voting</th>
<th>Established to generate profit</th>
<th>Asset lock/objects?</th>
<th>Equity financing?**</th>
<th>Eligible for grant funding?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company limited by shares (CLS)</td>
<td>Shareholders</td>
<td>Board of directors</td>
<td>One vote per share</td>
<td>Yes</td>
<td>No/ Any</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Company limited by guarantee (CLG)</td>
<td>Members</td>
<td>Board of directors</td>
<td>One member one vote</td>
<td>Not usually</td>
<td>No/ Any</td>
<td>No</td>
<td>Yes (may be restrictions)</td>
</tr>
<tr>
<td>Industrial and provident society (CBS*)</td>
<td>Members</td>
<td>Members/cooperative structure</td>
<td>One member one vote</td>
<td>No</td>
<td>Potentially/ Must benefit community</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Community interest company (CLS)</td>
<td>Shareholders</td>
<td>Board of directors</td>
<td>As CLS</td>
<td>Yes</td>
<td>Yes/ Community interest</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Community interest company (CLG)</td>
<td>Shareholders</td>
<td>Board of directors</td>
<td>As CLG</td>
<td>No</td>
<td>Yes/ Community interest</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*There are two types of industrial and provident society, CBS refers to those set up for the benefit of the community.

**It is important to note that this information makes generalisations, as such there may be exceptions of companies that go against these trends, particularly as investors and grant-makers often specify their own requirements.
Company limited by shares – A CLS is the most common corporate legal structure (Unltd n.d.). It is owned by shareholders who have certain rights, such as voting and agreeing to changes to the company, as well as responsibilities; shareholders must pay their number of shares if the company shuts down, though this can be limited a certain sum. Shareholders can also keep any amount of profit after paying tax. (Gov.uk n.d.)

Company limited by guarantee – This legal structure is typically adopted by non-profit organisations who can be registered as charities. If they are not registered as charities, the company is managed by a board of directors and does not get tax relief. A CLG is owned by members or guarantors who are responsible for paying a certain amount should the company be closed. A CLG can distribute profits to members, however profit is generally used towards the non-profit aims of the company (Smith 2015).

Industrial and provident society (CBS) – The IPS is a type of cooperatively-owned society ran for the benefit of the community. IPSs are based on democratic principles, such as each member having an equal voting right regardless of the amount they have invested in the company, as illustrated in the table (Gov.uk 2013).

Another important factor relates the type of finance different legal forms can access. To return to the example of the CIC (CLG), the asset lock may bring certain benefits such as access to grant funding, but it will also deter investors who are unable to receive any returns. This has implications for the financing and growth of the company. Similarly, a CLS is able to attract investment, but it is unable to benefit from access to grant funding because of how the company distributes profit. Thus, a CLS may come under pressure from investors, to deliver a financial return rather than focus on their environmental mission. However, such statements are not clear-cut. Legal forms are complex and constantly changing. For example, prior research has shown social enterprises to adopt multiple legal forms to be able to access different benefits and overcome certain constraints to funding, however, more research in this area is needed to understand these complexities, as Trones (2015) points out, a central issue is whether a different legal structure might lead to a different type of behaviour?

The legal form is also key to the governance of environmental resources, which “encompasses the processes that shape social priorities, how human coordination is facilitated and how conflicts are acknowledged and possibly resolved. In environmental governance, the focus is

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3 In the case of the CIC (CLG).
on these issues as related to the use and protection of environmental resources”. (Vatn 2015, p.135). Ultimately, these issues raise the question of how social enterprises, through different motivational structures, might foster different types of action for managing environmental resources. Is it possible that ESEs and the use of certain legal forms, could lead to better management of environmental resources? And equally how, through competing logics, do ESEs manage to achieve their goals? These are some of the key questions this paper intends to contribute to.

3.3. Gaps in the literature

Overall, there is a need to better understand what ESEs do and how they differ to conventional business models (Bell 2012; Schaper 2002). Of particular importance, is understanding what institutional conditions enable ESEs to survive while meeting social and environment goals (Lee & Battilana 2014; Hall 2010) and how the structure restricts and supports ESEs (Vickers 2010). Institutional economics offers a useful framework to explore these dynamics, however, few studies have applied it within this proposed area (Lee & Battilana 2014; Meek et al. 2010; Ferri & Urbano 2011) or begun to recognise the potential of social enterprises to establish or alter institutions (see Dean & McMullen 2007). Pacheco reaffirms this, illustrating how environmental entrepreneurs transform and create new institutions, “that improve the competition of sustainable behaviours” (Pacheco et al. 2009 p.465). Few studies have also examined how ESEs access finance, especially, in connection with their institutional structure. In short, this study aims to contribute to these areas and understand in what ways ESEs present an alternative to traditional business models.
4. Methodology

This chapter provides the rationale behind how the study was carried out. To begin with it will describe the research strategy. The following sections will then discuss setting, sample, research instruments, data collection and analysis.

4.1. Research strategy

ESEs present a fascinating alternative to traditional economic models; they could be the answer to shifting the economy towards a more sustainable pathway. However, it remains unclear how and in what ways they may do so. To this end, the research questions addressed (1) the characteristics of ESEs, (2) how they are structured and financed, (3) how they perform and (4) what their strengths and limitations are based on the findings.

This study took an inductive approach due to the fields early stage of development and a multiple-case study design was considered most suitable to examining the inner workings of ESEs. This design would enable the researcher to draw comparisons and improve theory-building (Bryman 2012). That said, it is important to acknowledge that the design is not entirely inductive and makes certain assumptions that can be considered deductive in approach. For example, whether the ESE faces conflicting goals. In response to the lack of empirical data in this area (Gibbs 2009), a total of nineteen in-depth interviews were carried out to collect data on the characteristics, function and performance of ESEs, with the main goal of identifying their potential as more sustainable business models. The interviews were transcribed, coded and thematically analysed in accordance with the research questions.

4.2. Setting

This study took place with ESEs situated across the UK. The majority were in different regions in England, two were based in Wales and one from a remote area in Scotland, with some concentration in the South/South-east of England. Interviews were conducted in different forms, with six completed in person, three via Skype and ten by telephone. Of the interviews carried out in person, locations included the ESEs offices or at a café conveniently located for
the respondent. Most interviews were completed one to one, however, on one occasion, another member of staff was present in the office room.

4.3. Sample

Using a purposive sampling technique, this study aimed to identify a variety of ESEs who could provide a rich insight into the research questions. Therefore, it was important that the sample differed in their key characteristics (Bryman 2012). Snowball sampling was also considered a suitable strategy to build up a network of ESEs (Coleman 1958 cited in Bryman 2012), however, due to the diversity of the social enterprise concept, this was not used very often. A set of criteria was developed to restrict the sample, factors such as the sector, type of legal form, the operation of a website, and whether it was possible to speak with the founder or managing director were important.

In addition, the definition of ESEs was kept broad to generate insight into the phenomena in all its forms. ESEs had to (1) have started the business with an environmental aim as one of their main objectives and (2) reinvest their profits towards their environmental/social mission. This study mainly focused on for-profit ESEs that supplied a green product or service, because of the study’s objective of examining social enterprise as an alternative to the traditional, neoclassical economic model. That said, both for-profit and non-profit ESEs were included in the sample as it was thought that this might reveal interesting insights, allow the researcher to draw comparisons, as well as provide a better understanding of the make-up of the sector. It is worth mentioning in regards to the first criteria, that initially, ESEs had to have an environmental aim as their main objective, however, this was not clear-cut, as many businesses had social goals they attributed equal importance to, therefore, it was decided that ESEs had to have an environmental aim as one of their main aims as opposed to it being a sole focus. It was considered that this might better reflect the sector as many social enterprises seek to incorporate both social and environmental aims into their missions.

In total, fifteen interviews were conducted with the founder, co-founder or managing director. The other four were carried out with CEOs, a board member and a community group member. In the last instance, two of the participants were involved in the initial set up of the ESE and two were not. The condition to speak to the founder was relaxed slightly due to the low response rate, but where possible with someone who had a strong understanding of the ESEs early stages,
development and decision-making. One ESE is not included in the results, as it became apparent at the time of interview that the business did not fit the requirements of the sample, making the total interviewed nineteen.

The first step of the sampling strategy was to create a list of potential ESEs. To do this, a search was conducted using Google, to find directories that would advertise ESEs. Different search terms such as environmental, green, sustainable, eco, linked with business, social enterprise, or directory produced several results of databases such as My Green Directory and Social Enterprise UK member’s directory (My Green Directory 2016; Social Enterprise UK n.d.). Each of these databases were searched exhaustively, employing key words such as community, social, enterprise, CIC. This produced some results with descriptions of the social enterprises, however, for many of the directories the results were limited. A particularly useful resource was the Buy Social Directory (Buy social directory n.d.). Other resources included different membership organisations such as Social Enterprise East of England, and the Brighton Social Enterprise network (obtained through snowballing). Potential ESEs were added to a list, after which a more thorough examination of each one was made to see if they met the criteria from their website. Different networking events were also attended to find ESEs, such as the Social Value Summit and the Social Enterprise Festival, organised by Queen Mary and City University in London, however, only one ESE was found and they did not participate. In total, 60 environmental enterprises were contacted via email and/or telephone and asked to take part. A colour code was kept to track ESEs that had been contacted, those that were no longer operating, those who were unable to participate, and those with an interview arranged. Overall, there was a low response rate (approximately one third replied) even though most ESEs were contacted on more than one occasion. Six ESEs were no longer in business, this became apparent through researching them via the internet, or if they had no website and there had been more than three attempts to contact them.

4.4. Research instruments

Before undertaking field work it was important to prepare a thorough interview guide (see Appendix). The guide was made up of thirty-six questions, which were written with the research questions in mind. This study is also part of a PhD and therefore there were additional questions incorporated for use within that project. Various types of interview questions were
asked, such as introducing, follow-up and probing questions as suggested by Kvale (1996 in Bryman 2012). There were also three likert scale questions included to understand the importance of certain opinions or motivations of ESEs. The interview guide was structured into three main areas. Firstly, participants were asked about how the ESE was organised, this explored the background of the business and the product or service they offered. It also included discussing ESEs economic development and their legal form. Secondly, individuals were asked about their business model (meaning, how ESEs delivered something attractive to customers and earned money to ensure survival). This involved discussing the environmental challenges the businesses were trying to address, their competitors and their impact. Finally, the third section related to how ESEs operated, how they viewed profit and how they balanced their environmental, social and commercial goals.

4.5. Data collection

As mentioned previously, this study used individual, semi-structured interviews to collect data. This method was considered the most appropriate option, as it allowed for a degree of structure and flexibility, giving participants the opportunity to digress and bring forth their own thoughts, whilst also shedding light on the research questions (Bryman 2012). Website material was used to supplement the data, specifically, the ESEs websites were used to give the researcher an understanding of the company and to gather any information relevant to the interview questions to shorten down the length of the interview. This was important as time was a constraint for many participants.

The interviews were carried out over a two-month period between the end of November to February. Six of these were completed in person, three via Skype and ten by telephone. The interviews completed in person took place at the ESEs offices or at a café. Some skype interviews used a camera and some interviews did not. The majority of interviews lasted for one hour, however, there were some exceptions ranging from thirty-five minutes to one hour and a half. There was a fair amount of background noise in these instances which caused some distraction. Fortunately, all Skype interviews had good internet connection. Telephone interviews had problems with the signal in a few instances, though this was quickly rectified. Some participants informed me that they may be distracted by employees or children. Overall,
this did not seem to pose much of a problem, however, it may have influenced the length or depth of the interviews in a few cases.

Prior to carrying out the interviews, ESEs were emailed or phoned to request their participation. In both instances, individuals were given an overview of the research, including what was involved and why they had been selected to participate. Following this, an invitation sheet was sent via email to gain informed consent. This document outlined the background and purpose of the study, what was expected of participants, and what would happen to their information. Individuals were informed that the data would be anonymised, that their participation was voluntary, and that they were free to withdraw their consent at any point. In most instances, a further email was sent before the interview to clarify the main topics and the types of questions that would be asked. It was hoped that this would give individuals a clearer idea of what to expect as well as help enrich their responses.

During the interview, individuals were reminded of what the research entailed and were asked if they had any questions. The interviews were recorded using a dictaphone which all participants agreed to. The researcher aimed to arrive early to familiarise themselves with the setting when interviews were carried out in public places, however, on some occasions this was not possible, which meant that some locations may have been noisier than preferred. Field notes were taken throughout the interview of any interesting information that stood out which was also used to ask follow-up questions. The researcher made notes afterwards of general impressions and how the interview went (Bryman 2012).

4.6. Analysis

The interviews were transcribed verbatim during the data collection process. Each transcript was then coded using the steps and considerations provided by Bryman (2012) and Charmaz 2006 (in Bryman 2012). In short, this involved using initial coding to get a good overview of the data and note down any initial impressions, as well as focused coding, to concentrate on recurring codes and those that would be most revealing in terms of the research questions. The data was thematically analysed in an inductive manner, meaning that the analysis was undertaken without trying “to fit themes into a pre-existing coding frame, or the researcher’s analytic preconceptions” (Braun and Clarke 2006 p.12). However, as mentioned previously, this study is partly deductive in nature and therefore the researcher’s theoretical assumptions
are likely to have had some impact at different stages of the analysis. For example, a key issue with thematic analysis is what level to code at, whether the themes are semantic or latent in nature (ibid.). A potential limitation of this research is that in some ways the researcher was influenced by both levels due to the approach of the study incorporating inductive and deductive elements. In the semantic approach, the themes identified are explicit and somewhat descriptive, whereas, the latent approach “examine[s] the underlying ideas, assumptions, and conceptualisations” that shape the content (ibid. p.13). Looking for latent themes is also more associated with a constructionist approach, as with this study (ibid.). Finally, table coding was used to organise the themes and sub-themes and to establish linkages and connections between the codes.

4.7. Strengths and limitations

There are several strengths and limitations of the study that are important to mention. Firstly, in regards to the sample, the sample technique could have been improved as the directories did not appear to be updated regularly as some ESEs were no longer in business. Also, the lack of a clear definition of social enterprise, meant that there were directories that may have described certain businesses as social enterprises that were in fact ‘social businesses’, the key difference being that a social enterprise is specifically set up to tackle a social or environmental issue, whereas the former may incorporate social or environmental elements into their business. This made it a difficult task to find the correct sample. Nonetheless, each ESE was thoroughly researched to see whether they fitted the criteria of the study and the diverse cross-section of the sample is a certain a strength of the thesis. That said, snowballing could have been made more use of. Another limitation was that some participants were not the founders of the ESE, therefore, there are gaps in what they could contribute and their responses would not necessarily reflect the motivations of the founder. Also, some ESEs may have had more than one founder which could have added a further dimension to the results. However, there were only a few members of the sample that were not founders or directors.

There were also some issues related to the study’s definition of ESE. To reiterate, ESEs had to (1) have started the business with an environmental aim as one of their main objectives and (2) reinvest their profits towards their environmental/social mission. However, deciding on factor (1) was problematic, as a social issue may have environmental dimensions and vice versa,
therefore, in some cases it was not always simple to decide what was a social enterprise and what was an ESE. It is possible that this may have influenced the ‘social element’ of the results, although a more likely explanation is that many ESEs are motivated by social and environmental aims. In regards to factor (2), it was not possible to know in advance (unless the ESE mentioned this on the website) whether the business reinvested profits or not. Though this is a requirement to be a social enterprise, to enhance the credibility of the study, it may have been worthwhile to ask participants how they distributed profit to ensure that all ESEs were operating in this way. Thirdly, it was difficult to know whether ESEs were for-profit or not-for-profit, in many instances, this study relied on whether the ESE intended to generate a profit and how they defined themselves. However, the fact that many ESEs defined themselves as both for-profit and not-for-profit made it problematic to distinguish. This issue reflects the complexity of the social enterprise model and definition.

A strength of the study is that the interviews conducted were in-depth and provided extensive data. Also, some of the questions asked crossed over and allowed for certain results to be triangulated to some degree. Another strength is that the interview guide made use of different types of questions, such as specifying and probing questions to strengthen the credibility of the results (Bryman 2012). In addition, the use of likert scale questions were useful in measuring certain issues, such as, the extent ESEs perceived there to be a trade-off with their environmental and commercial aims and add weight to the overall findings. However, there were also issues with participants understanding the wording of some of these questions, and therefore, there was a lack of consistency in the way the questions were asked which reduces the credibility and dependability of the results. For example, participants showed different understandings of profit. The study’s credibility could have been enhanced by providing participants with a precise definition. Another issue related to researcher bias. In some instances, the researcher expressed discomfort around asking participants to rate how important profit was to them. Consequently, it is possible that this could have influenced participant’s responses, however, the fact that most interviewees gave mainly high ratings could suggest there was not an impact. Also, there were different questions that examined how participant’s motivations weighed against each other which strengthens the findings that participants were not purely profit-motivated.
5. Analysis

The following chapters present the results and discussion of the study considering the research questions. The first section will discuss the characteristics of ESEs. It will begin by providing an overview of the businesses in terms of age, size and sector. A more thorough discussion will follow regarding the participant’s motivations, what they do as a business, and what environmental challenge they are addressing. The second section will discuss how the ESE functions in regards to finance and the legal form. Of particular importance is the extent to which the social enterprise (SE) model and legal form helps or hinders the enterprise’s aims. The third section will discuss how ESEs measure their performance, their business practices, whether they face conflicting goals, and how they make decisions in face of such conflicts. ESEs views on upscaling is also addressed. Finally, the fourth chapter will respond to the final research question concerning the strengths and limitations of ESEs considering the findings.

5.1. What characterises environmental social enterprises?

5.1.1. Age, size and sector

Before discussing the ESEs in more depth, it is necessary to provide some basic details of the companies who participated. Table 2 presents the results of the sample in relation to their age, size and sector they operated in. As illustrated, ESEs varied across each of these categories. The oldest ESE was seventeen years old and the youngest was one year old. Most companies were small businesses, with an average of nine employees across the sample. In terms of sector, the sample was mixed with ESEs working in manufacturing, information technology (IT), renewable energy, retail, agriculture and transport. Many ESEs worked with reuse and recycling, and in a few of these cases this involved another line of work, such as transport or wood management. It is important to mention that one ESE existed in another legal form before the date displayed.
Table 2: ESEs based on age, size and sector

<table>
<thead>
<tr>
<th>Company</th>
<th>Year incorporated</th>
<th>No. of staff**</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2015</td>
<td>1</td>
<td>Agriculture</td>
</tr>
<tr>
<td>B</td>
<td>2008</td>
<td>4</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>C</td>
<td>2000</td>
<td>2</td>
<td>IT***, Web service</td>
</tr>
<tr>
<td>D</td>
<td>2011</td>
<td>5</td>
<td>Transport, reuse and recycling</td>
</tr>
<tr>
<td>E</td>
<td>2003</td>
<td>14</td>
<td>Wood, reuse and recycling</td>
</tr>
<tr>
<td>F</td>
<td>2011</td>
<td>5</td>
<td>Renewable energy, consultancy</td>
</tr>
<tr>
<td>G</td>
<td>2008</td>
<td>2</td>
<td>Sustainability, consultancy</td>
</tr>
<tr>
<td>H</td>
<td>2015</td>
<td>0*</td>
<td>IT, Web service</td>
</tr>
<tr>
<td>I</td>
<td>2007</td>
<td>15</td>
<td>Transport, renewable energy</td>
</tr>
<tr>
<td>J</td>
<td>2004</td>
<td>12</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>K</td>
<td>2009</td>
<td>10</td>
<td>Reuse and recycling</td>
</tr>
<tr>
<td>L</td>
<td>2008</td>
<td>20</td>
<td>Wood, reuse and recycling</td>
</tr>
<tr>
<td>M</td>
<td>2011</td>
<td>12</td>
<td>IT, reuse and recycling</td>
</tr>
<tr>
<td>N</td>
<td>2008</td>
<td>2</td>
<td>Retail of flowers, plants, seeds</td>
</tr>
<tr>
<td>O</td>
<td>2014</td>
<td>11</td>
<td>Renewable energy, consultancy</td>
</tr>
<tr>
<td>P</td>
<td>2015</td>
<td>9</td>
<td>IT, app</td>
</tr>
<tr>
<td>Q</td>
<td>2013</td>
<td>12</td>
<td>Reuse and recycling</td>
</tr>
<tr>
<td>R</td>
<td>2005</td>
<td>2</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>S</td>
<td>2011</td>
<td>34</td>
<td>Manufacturing</td>
</tr>
</tbody>
</table>

*this ESE is volunteer-led  
**number of staff is based on heads and does not include volunteers  
***IT refers to information technology

To reiterate from the previous chapter, fifteen interviews were conducted with either a founder, co-founder or managing director. The other four participants consisted of two CEOs, a board member and a community group member. Out of these, two individuals were involved in the initial set up of the ESE and two were not. Hence, there is some limitations to the questions two participants could answer. Participants, are hereafter referred to as environmental entrepreneurs, ESEs or by their Company acronyms. Environmental entrepreneurs largely came from either charitable, business or environmental backgrounds. However, one or two environmental entrepreneurs did not have any of these backgrounds and had developed a passion for the environment, or a social issue through other personal experiences. This will be discussed further in the next section.
5.1.2. Motivations

This study found that environmental entrepreneurs’ prior experiences of a problem and their desire to create wider change drives them to start a business. This was the case for ten ESEs whose businesses helped solved the problem that they had experienced, or was directly connected to their experiences. For example, one participant aiming to tackle the issue of food waste explained;

_I was moving country two years ago and I found myself with some food that we hadn’t managed to eat in time... so I set out on to the street with my children to try and find someone to give this food to and I failed. Through that whole process I just thought, this is ridiculous I know there are people within a matter of metres of me who would love this food, problem is they just don’t know about it, and so that was the inspiration._

- Company P

A common theme amongst other ESEs was the influence of different types of environmental or community-based projects which in some way helped to lay the foundations for the ESE. In a few instances, the ESEs were modelled on previous projects or of other social enterprises. For example, one ESE was a spin-off of a social enterprise the entrepreneur had been a part of setting up. Another ESE was formed out of an anti-plastic campaigning project. There were some variations to these themes of businesses who had had been started as a result of the local authority, or because of a charity, though these were very few.

A central issue that arose from discussing participants’ motivations, was their dissatisfaction with the charitable sector. This seemed to stem from the ineffectiveness of the sector or the problem of grant funding. For example, one participant who had met their business partner at a voluntary bike project stated how they “both felt there was room for something a bit more business-like ahh rather than just depending on funding”. The founder explained that they’d tried to persuade the project to “become more of a business”, but because the committee weren’t keen, they decided to set up on their own.

Another participant when describing their motivations explained how they had previously worked for a large national charity that was receiving significant amounts of money per year from the government. They described feeling disillusioned by the charitable sector;

_I got a bit disillusioned with the charity sector, big money, especially big corporate charities like [name omitted]... I just didn’t feel that we were affecting peoples’ lives_
as we could...I still don’t like the concept of charity you know, Oliver walking up to the table saying please sir can I have some more.

- Company Q

This participant’s comment highlights another dimension regarding the effectiveness of charities. Their analogy of feeling like Oliver Twist captures the participant’s feeling of begging, a power dynamic which is implied by another individual’s use of language who describes not wanting to “be slaved to grant funders anymore” (Company A). The participant’s choice of words emphasises the power relationship of having to depend on grant funding. She goes on to explain that generating an income from sales gave her greater personal and financial autonomy. The notion of financial independence comes up repeatedly throughout the research and adds weight to the next theme.

The findings of this study showed that most environmental entrepreneurs are highly committed to their missions. At the same time, they possess a strong sense of commercial awareness. When asked whether they were more mission-driven or more market-driven, the majority of participants stated that they were more mission-driven, however, throughout the interviews many participants gave emphasis to operating as a business and the importance of understanding “the realities of the market place”. For example, the founder of the spin-off ESE explained;

one of the big criticisms we had [at the previous social enterprise] is ah you’re just dreamers, you don’t understand economics, erm, so that’s why we started the [name omitted] you see, ok we understand we have to create a market, we understand how you create market demand. – Company H

Many participants also stressed the importance of being commercially viable “the heart of what we do is collect timber waste, but we don’t collect it for nothing we have to be viable and self-supporting, so we need to charge our market” (Company E). Another participant stated, “we are aware that you can’t just do something because it’s nice environmentally, it’s also got to make business sense” (Company F).

Some participants also appeared to be more market driven, nonetheless, they were equally driven to create positive impact and therefore, conceptualising entrepreneurs as either mission or market driven is problematic. There were two exceptions of environmental entrepreneurs who expressed that “the mission is what drives the company, nothing else” and that he did not “care at all about the market” (Company M) and also, another interviewee who was not
necessarily market driven but felt pressured by the market, “the market drives us you have to do what it demands” (Company D). This ties in with the challenges ESEs face which will be discussed in section 5.3.4.

Finally, a key concern of this study was to find out how profit motivated environmental entrepreneurs were, to get a better understanding of how their motivations weighed against each other and to see how ESEs differed to traditional businesses. To do this, participants were asked a likert scale question which rated how important profit was to interviewees on a scale of one to five. Five meant that profit was of great importance to participants and one was the least important. Unfortunately, the results showed different understandings of profit, with many interpreting it seemingly as income, however, some participants did distinguish between the two. The results in the table below show the number of participants who gave each value.

Table 3: Profit rating

<table>
<thead>
<tr>
<th>Rating of profit</th>
<th>0</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of participants</td>
<td>2</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>7</td>
</tr>
</tbody>
</table>

The majority of respondents gave values between three and five, this stemmed mainly from two themes. Many participants saw profit as necessary to fulfil their missions and as important for generating further impact, as one participant’s comment illustrates, “we have to survive and the more money we’ve got the more money we can invest in our mission. The more money we’ve got the more resources we can save” (Company E). Environmental entrepreneurs also viewed profit as key to their survival;

profit is crucial again and even as a social enterprise I say that not with glee but you have to keep an eye on that otherwise the graveyard is full of great people who are so lovely...and had the best intentions but ultimately failed at business – Company Q.

Interestingly, a few respondents stated that all three values (meaning environmental, social and economic) should be equal, “when I say five, let me supplement that by saying its five as is doing social and environmental good, that’s a five” (Company K). Another individual who felt similarly agreed, “I think there’s something wrong with [profit] being only your primary focus and goal, I significantly disagree with that” however, the participant also felt that there was sometimes “an embarrassment” around making profit, and questioned the idea of it.
you can have many different definitions of what profit is which is one of the ambiguities of the whole sort of [social enterprise] programme if you like. Because you can have people, you can have non-for-profit organisations where the executive team are being paid huge chunks or money, there being hugely in-efficient, yet their technically not-for-profit so that’s deemed as a good thing – Company O.

This participant’s comment interconnects with the critique of the charitable sector expressed by other participants, it also points to the complexity with social enterprises of being both a for-profit and non-profit entity. The results concur with earlier findings of the study which showed that ESEs are highly mission focused and are equally concerned with their survival. However, the fact that there were different understandings of profit reduces the credibility of the results. Also, that several ESEs use profit to achieve their social or environmental impact, brings into question whether it is possible to gauge how important profit is to entrepreneurs using this method.

5.1.3. What do environmental social enterprises do as a business? What environmental challenge do they seek to address and how?

Environmental entrepreneurs mixed social and environmental motivations informs what they do as a business and for social and environmental impact. However, it is difficult to distinguish between the motivations and missions of the business, as these are closely connected. Table 4 on the following page depicts each ESEs main environmental business activities and their missions. Many ESEs carry out various types of working activities within the same business and have several different aims within their missions, therefore, it was not possible to capture the scope of every company. The businesses in this study offered a mixture of products and services. To be specific, four ESEs sold a product, seven offered a service, and eight offered both a product and service. A common example in the latter case was those that worked within the reuse and recycling sector. Many of these businesses generated an income from offering a collection, removal or relocation service, whilst reworking second hand items into new or improved products. Some ESEs also used their specialism to deliver additional services such as environmental management, IT services or bike repair/food growing training.
Table 4: Main environmental business activity and mission

<table>
<thead>
<tr>
<th>Company</th>
<th>Main business activity</th>
<th>Mission</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>grows and sells organic produce</td>
<td>to relocalise food and reduce carbon footprint</td>
</tr>
<tr>
<td>B</td>
<td>sells organic wool and products</td>
<td>to promote organic produce</td>
</tr>
<tr>
<td>C</td>
<td>connects food producers and consumers through an online database</td>
<td>to create a more localised economy and food system</td>
</tr>
<tr>
<td>D</td>
<td>sells new and recycled bikes, provides repairs and hire scheme</td>
<td>to reduce waste and promote sustainable transport</td>
</tr>
<tr>
<td>E</td>
<td>collects wood waste, reuses and recycles into products</td>
<td>to reduce waste, resource depletion and lower carbon footprint</td>
</tr>
<tr>
<td>F</td>
<td>develops community renewable energy projects</td>
<td>to create and reduce renewable energy demand</td>
</tr>
<tr>
<td>G</td>
<td>various sustainability projects and consultancy</td>
<td>to enable communities to reduce their carbon emissions</td>
</tr>
<tr>
<td>H</td>
<td>connects food producers and consumers through an online database</td>
<td>to promote local food and food sovereignty</td>
</tr>
<tr>
<td>I</td>
<td>renewable energy bus service and coach hire</td>
<td>to prevent climate change and promote sustainable transport</td>
</tr>
<tr>
<td>J</td>
<td>sells various beverages</td>
<td>to provide access to clean water and improve WASH*</td>
</tr>
<tr>
<td>K</td>
<td>sells and collects reused furniture</td>
<td>to prevent waste and stop the depletion of resources</td>
</tr>
<tr>
<td>L</td>
<td>provides various wood-related services and products</td>
<td>to provide sustainable tree work and prevent climate change</td>
</tr>
<tr>
<td>M</td>
<td>IT collection, reuse, recycling and sales services</td>
<td>to promote social and environmentally friendly computing solutions</td>
</tr>
<tr>
<td>N</td>
<td>sells British seeds and plants and offers management services</td>
<td>to restore habitats and prevent biodiversity loss</td>
</tr>
<tr>
<td>O</td>
<td>renewable energy consultancy and concierge service</td>
<td>to encourage the uptake of renewable energy</td>
</tr>
<tr>
<td>P</td>
<td>online food sharing app</td>
<td>to reduce food waste and resource depletion</td>
</tr>
<tr>
<td>Q</td>
<td>item collection, reuse and recycle service</td>
<td>to prevent waste and the depletion of resources</td>
</tr>
<tr>
<td>R</td>
<td>sells bottled water and provides a refill service</td>
<td>to provide access to clean water and improve WASH</td>
</tr>
<tr>
<td>S</td>
<td>water service provision</td>
<td>to exemplify the best environmental credentials</td>
</tr>
</tbody>
</table>

*WASH stands for water, sanitation and hygiene*
There were several themes that emerged in relation to ESEs missions. Firstly, ESEs aimed to offer a socially and environmentally better product or service, for example, as an organic or reused product, or as a ‘green’ service, such as developing renewable energy or providing a sustainable form of transport. Many ESEs missions either directly or indirectly relate to resource use, depletion and climate change, although each ESEs way of addressing this issue was obviously different. Another theme was environmental entrepreneurs’ emphasis on strengthening the local economy and communities. In many cases, participants referred to wanting to “connect people” as a way of generating impact, for instance, Company C describes reconnecting people with “the raw ingredients” as a way of getting “people to understand where their food comes from”. Similarly, Company F talks about community-owned energy systems as “reconnecting people” and “making sure that everyone’s taking part in creating a more sustainable energy future”.

Another theme that was present within ESEs work was supporting disadvantaged groups. This may be by providing work and training opportunities, improving access to clean water for people in greater need, or aiming to be affordable and accessible to low income groups. For example, one participant’s strong desire to help young unemployed people led him to set up a separate charity in conjunction with the ESE.

we looked at it as a business model and thought yes ok, we’re doing a really good thing but... one of the angles, so not recycling and the green ethos, but helping people, if we’re gonna carry on helping people we need to do this as an academy ...and that’s kind of why we started [name omitted] as a charity. The idea is to further the education of all these young adults who are struggling. – Company M.

In addition, another theme that became apparent was environmental entrepreneurs’ strong ambition for change. ESEs worked at a range of levels, from local, to regional, national and international. Many ESEs sought to create change at a systemic or societal level. Company O described wanting “to achieve a sort of mass mobilisation” of people switching to renewable energy. In a similar vein, Company C explained his aim was “to build this new food industry where everyone’s involved and where everyone’s got a stake in it”. Another entrepreneur described wanting to generate impact internationally, “we want tens of millions of people to be using [name omitted] and sharing food and doing that all over the world” – Company P. There were a few exceptions to this of environmental entrepreneurs who did not express a particularly strong desire to create change, though these were very few. For example, one participant said
that he hoped to be in the same position, and felt that due to his age, that this was all he could look forward to. A few other participants may have been ambitious but felt less optimistic for different reasons.

The previous paragraphs have looked at what ESEs do as a business and what they do as a mission. The last part of this section will discuss how ESEs create change, in other words, what their approach is to solving these issues. It is important to note that the themes presented are not mutually exclusive, they might overlap and vary in importance. Also, the themes are there to demonstrate the broad trends and to highlight variation within these themes, though at some points it is difficult to do so. Table 5 below provides an overview of the two main themes apparent in ESEs approach and how these connect with ESEs missions.

Table 5: Mission and approach

<table>
<thead>
<tr>
<th>Approach</th>
<th>Mission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seeing the bigger picture</td>
<td>Helping disadvantaged people</td>
</tr>
<tr>
<td>(bottom-up, influencing behaviour, empowering people)</td>
<td>Strengthening the local community and economy</td>
</tr>
<tr>
<td></td>
<td>Ambition to create wider change</td>
</tr>
<tr>
<td>Setting a strong example</td>
<td>Environmentally better product or service</td>
</tr>
<tr>
<td>(strong values, best practice, influencing wider industry)</td>
<td>Ambition to create wider change</td>
</tr>
</tbody>
</table>

This study identified two broad themes in regards to ESEs approach, namely, ESEs see the bigger picture, and that they set an example. The first theme is about how ESEs work locally to create wider or long-term change. The second theme refers to ESEs ambition to influence wider industry change by setting a strong example. Each of these themes shall be discussed consecutively.
Seeing the bigger picture refers to the ESEs who work at a community level and take a bottom-up approach to stimulating wider change, as one participant stated “it is about making the immediate environment and the global environment better through sustainable transport” (Company D). This may involve supporting disadvantaged groups, connecting people or strengthening local trade. It may also be about influencing or empowering people, whilst acting as a catalyst for change on a broader level. For example, one participant described their interest in making “enterprise a vehicle for social change” and having a “positive impact on people’s lives in a way that empowers them” (Company A). In another instance, whilst discussing how the ESE measures their impact, Company F states;

we’re more interested in being a catalyst of making stuff happen rather than us having to own it and do it ourselves...so its saying how best can we influence and change things, a lot of its by demonstrating and providing the tools for other people.

This participant’s comment adds another interesting dimension, in the sense that she is distinguishing herself from a traditional business in not “having to own” things.

ESEs might also seek to influence individuals’ behaviour, for instance, in one conversation, when asked what environmental challenge the ESE sought to address the participant stated, “computer waste, landfill, people, the throwaway society that we live in” (Company M) illustrating their approach as one that not only is concerned with waste but with people and societies wasteful behaviour. Another environmental entrepreneur was explicit in their aims to influence peoples’ behaviour, “for me it was about providing people on-the-go, with an option to buy an ethical water so a water that was very conscious of its impact, but was trying to influence people away from that” (Company R).

Some ESEs in this theme also took a holistic or long-term view. For example, Company F emphasises thinking “more in terms of an energy system. And so it's as much to do with reducing energy demand as it is about increasing green energy supply”. Company L also prides themselves on taking a holistic approach by making the best possible use, meaning the most environmentally efficient use, out of wood and wood waste. Another ESE described their approach as creating systems that will provide “long-term sustainability of water access for a community” (Company J).

The second theme that became evident in ESEs approach was their efforts to set a strong example. Within this theme, ESEs were found to have strong environmental and social values,
and some businesses endeavoured to demonstrate best practice and influence wider industry. For instance, environmental entrepreneurs expressed aiming to be as environmental or sustainable as possible, “working with nature” or being an “environmental brand first”. A key example in this instance is Company S, who describes writing the business plan for an enterprise that would have the environment at the core of their work;

the commitment would be first and foremost about the environment, so the lowest possible carbon impact and the best environmental credentials, the mission being to exemplify best practice in the market, therefore, inspiring other businesses to try harder.

Here the participant demonstrates all aspects of the theme – having strong values, demonstrating best practice and influencing wider industry. Other ESEs also described their goal in being “a centre of local excellence” and being “a beacon of good practice that can be copied by others in [the] sector” (Company E). Company R also exemplified this approach, describing her rationale of wanting to “influence from the inside” and be “part of [the] industry” rather than “sit and throw stones at the bus”.

Within this theme, some environmental entrepreneurs demonstrated strong social and environmental values, such as fairness, trust, transparency and responsibility. Each of these principles varied in frequency, nonetheless, they have implications for how environmental entrepreneurs operate their businesses which will become clearer when discussing their business practices. In terms of fairness, several ESEs showed a concern for what was “the right thing to do”, or “socially just” as one participant’s comment illustrates, “you're driven by an environmental conscience but you also need to think about the social conscience of what your work is doing” (Company L). A few ESEs were concerned with being trustworthy, for example, one company measured their impact by perception, “we've promised that we've committed to providing sustainable energy, and we want to be transparent and trusted um, are we actually doing that in the eyes of all those different people” (Company L).

Several ESEs expressed the importance of transparency this again was particularly the case in terms of their business practices. For example, Company R, who donates all their profits to charity, explains the lack of transparency in the charitable sector and describes why transparency was important to them;

unless your donating, erm, hundreds of thousands, [name omitted] won’t tell you where your money’s going to be spent. That was a real no no for me, to me it was all about
connecting people with the communities that they were benefiting, so I really wanted that direct line of sight.

Company S also discusses the importance of transparency and accountability in terms of their environmental impact;

ev[ery piece of footprint that [the ESE] produces is...taken responsibility for, so then when we talk about positive social impact, we’ve done it in the context of what negative impact we’ve had on the planet, so [it’s] about us being completely transparent about the good and the bad that we do.

The final principle that some ESEs exemplified was responsibility, for instance, one environmental entrepreneur described the “need to think about what we’re doing and behave appropriately” (Company L). Another participant also showed a consciousness towards their behaviour, “I’ve always believed as a business owner that you have a duty of care to make the best of what you have available to you” (Company J). While these values were not necessarily prominent amongst all ESEs, they indicate a trend towards ESEs being more conscious of their social and environmental impact.
5.2. Function

This chapter of the thesis is concerned with how ESEs function. It is split into two sections in accordance with the research questions. The first section examines how ESEs sustain themselves financially. Part of this will be looking at what finance and support ESEs received when setting up, and also what their current financial state looks like now. Any financial barriers related to ESEs legal form will be discussed in the next section. The second section looks at the SE model, including what legal form ESEs take and how the model works with or against ESEs aims.

5.2.1. Finance

The results showed that ESEs used various types of finance to set up and to sustain themselves at present, this included, trade income, personal savings, grants, loans, and external investment. It is important to remember that the ESEs ranged a fair amount in age and therefore, they are at different stages of development. For example, three businesses are in their first two years of trading, and so their financial status is potentially less stable than others. There are two cases that could be considered exceptions in how they set up financially, one of which came about after winning a large prize fund, and another, which was reinvented from a business that had accumulated large sums of debt. It also became apparent at the time of writing that one company had closed due to a lack of funding. This shall be discussed in the following sections.

5.2.1.1. Trade

Almost all ESEs in the study generated an income through trade, however, it is difficult to say for certain how much of their income trade accounted for. Based on the discussions, twelve ESEs appeared to be self-sustaining, meaning, they were generating the majority, if not all, of their income from trade. There were some particularly strong ESEs, one of whom had “just under 6 million pounds’ turnover” in the last year and another company who had been in the SE100 awards which ranks top social enterprises by growth, this company had been growing 20% a year. However, this category was problematic. There were two businesses that may have been self-sustaining, but equally found it difficult to survive. Comments such as, “we really struggle erm just to tick over and not go into the red” and “we’re often on a kind of commercial
knife edge really” illustrated their difficult financial position. Both companies had several different trade income streams, however, neither businesses had ever made enough money to have a surplus. Similarly, another environmental entrepreneur explained that “the asset base...is sustainable of itself. Um, it does produce some surplus for community benefit, but it’s not enough to...we can keep them ticking over...but it’s not at the scale we really want it”. These findings bring into question how many other ESEs may have difficulty surviving but did not explicitly state this, or were self-sustaining but unable to generate a surplus.

5.2.1.2 Making best use of finance and resources

Like previous research, many of the environmental entrepreneurs in this study had limited finance and resources and made use of what was available to them. The resourceful nature of entrepreneurs was evident when setting up and while sustaining the company. In the former instance, several participants described “starting out with nothing”, how they “worked for free” and “begged, stole and borrowed things and just tried to get going”. Another environmental entrepreneur, used her skills as a grant writer to get funding, because in her words, that was what she had access to. “I have more skills as a grant writer than I have tens of thousands of pounds that I could invest” (Company A). Several environmental entrepreneurs used personal savings to get their businesses started or described investing their time and salaries into developing the businesses.

In terms of support, a few environmental entrepreneurs were able to gain human capital in the form of interns and volunteer support. A government policy aimed at getting unemployed people back to work helped one entrepreneur who explained how useful it was in providing him with resource which without “would have made it very difficult...to set up”. That said, several respondents felt that there was a lack of government support and that more could be done to enable the social enterprise movement. A few participants took advice from independent bodies, people they knew or other social enterprises. However, a few participants felt there was a lack of appropriate advice for entrepreneurs from a strong business background.

The resourceful nature of entrepreneurs was also evident in how some businesses sustained themselves at present. ESEs were found to use different strategies to keep their costs low. For instance, having few members of staff, outsourcing and using volunteer labour were commonly mentioned factors. In a number of instances, this meant that ESEs could work from home and did not have the extra cost of an office, “because we don’t have the overheads, we’re not
constantly sucked into chasing money, just to cover the overheads” (Company G). The nature of some ESEs work also involved few costs, for instance, if the business were subcontracting work, providing an online service, or only relied on the use of transport as a cost here and there. A few participants also viewed strategies to be economically efficient as ways to improve their environmental efficiency, for example, by “having local pick up points” to reduce transport use or reusing tools rather than buying new.

5.2.1.3. External investment

Eight ESEs had external investors, however, there were different types of investors involved, including traditional investors and impact investors. In three cases the main investors were the local community who in some instances, owned the business. A few participants had gone through, or were in the process of going through the Seed Enterprise Investment Scheme, a government initiative that provides tax benefits for investing in small businesses. Most of the investors required a return on investment, however, in several instances the conditions and expectations around investment seemed to be more relaxed, rather than solely focused on financial return. For example, when asked whether the investors required a return on investment one respondent states;

    Well that’s a good question actually, the way that we sold it to them was to say to them, look you know, you’re doing a good thing here, don’t expect to see your money back... so we haven’t promised them any kind of return and their very good, their very passive
– Company N.

Another respondent expressed a similar sentiment, stating;

    The first investor who came on board he didn’t want anything, he said, I love what you’re doing, I think it’s really good, how much do you want...and that relationship with this guy has grown (Company M).

The idea of having different conditions and expectations around investment was captured by another participant’s comment who described what they believed could be a “shift in investor attitudes”.
this understanding that getting some of your benefit back not just in pure financial terms...that your return is partly financial and partly social and environmental ...was a real struggle, and now, I’m finding you're not having to explain that model to people, people seem to get it – Company L.

The statements provided suggest that the conditions for some ESEs seeking investment are somewhat more favourable than what previous studies might have suggested. However, the significance of this finding is unclear, it is possible that the relaxed conditions could have been because of the types of investors involved as this was not always specified.

Furthermore, there were two exceptions to these cases that are important to mention. In one instance, the investors of the company did not require return on investment. This is due to the nature of the company’s legal form which will be discussed in the next section. In another instance, the environmental entrepreneur had obtained traditional investment and crowdfunded when setting up, however, he’d been unable to provide the investors with the high rate of return they were looking for. In contrast with some of the other participants, the environmental entrepreneur expressed difficulty in attracting small investment;

very few people are interested in investing in anything less than about a £100,000, so small businesses like mine that probably only need £50,000 it's very difficult to kind of get that amount of investment...even the crowdfunding... even those people who say oh yes I’d like to invest in something social and good they’re still, they seem to also be looking for some high, big rate of return – Company C.

Further research in this area would be worthwhile to see what the conditions are like for ESEs who have external investors, and also whether the relaxed conditions are symbolic of a broader trend.

5.2.1.4. Grants and charitable funding

Many ESEs had received grant funding, however, in most instances this was when setting up, some of the sources described included European funding, prize money from competitions or donations. In a few instances, ESEs appeared to be using grant money as a form of income. When describing the company’s economic development, the participants stated that they were
seeking funding because certain sources of theirs had come to an end. However, these businesses also had other sources of income, such as contracts with the local authority, or trade income from selling wholefoods.

Overall, ESEs did not seem to rely on any one type of finance significantly more than others, although, individually, some sources were more important, particularly at different stages of the business. Also, unlike other studies, there were a small number of participants who felt that lack of funding was a barrier. In these instances, participants felt that more funding would improve the businesses security or allow the participants to do more and invest in the company.

There was one exception to this of a company that had closed during writing. This ESE appeared to be quite a unique case who had contracts with local authorities. The interviewee had been employed to get rid of the company’s debt and make it more financially secure. He gave emphasis to the company’s problematic financial situation during the interview and stated how the local authority contracts were all “loss-making”. However, the participant did not feel that it was a lack of funding that was a problem, but a lack of proper management. Finally, the fact that few participants described lack of finance as a barrier does not mean that there were no other barriers that interconnected with ESEs financial position. This will become clearer in the proceeding sections.
5.2.2. Legal form

This next section responds to two key research questions, namely, what legal form have ESEs chosen and why, and to what extent does the social enterprise (SE) model and legal form help or hinder the enterprise’s aims. The first part intends to provide a clearer picture of what ESEs look like and why they have chosen to organise in the way that they have. The second part will consider the supportiveness of the SE and legal model.

The ESEs in this study were based on various legal structures, as illustrated in Table 6 below. Some of the company structures were quite complex, with eight ESEs having more than one legal form. In several instances, ESEs had changed their legal structure throughout their development.

Table 6: Legal structure of ESEs

<table>
<thead>
<tr>
<th>Company</th>
<th>Legal structure</th>
<th>No. of entities</th>
<th>Changes in legal form</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>CIC (CLG)</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>B</td>
<td>CIC (CLG)</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>C</td>
<td>CIC (CLG)</td>
<td>1</td>
<td>Y</td>
</tr>
<tr>
<td>D</td>
<td>CIC (CLG)</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>E</td>
<td>CLG</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>F</td>
<td>IPS CBS and CIC (CLG)</td>
<td>2</td>
<td>N</td>
</tr>
<tr>
<td>G</td>
<td>CIC (CLG) with subsidiary</td>
<td>2</td>
<td>N</td>
</tr>
<tr>
<td>H</td>
<td>CIC (CLG)</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>I</td>
<td>CIC (CLS)</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>J</td>
<td>CLS and registered charity*</td>
<td>2</td>
<td>N</td>
</tr>
<tr>
<td>K</td>
<td>CLS</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>L</td>
<td>IPS CBS</td>
<td>1</td>
<td>Y</td>
</tr>
<tr>
<td>M</td>
<td>CLS and registered charity*</td>
<td>2</td>
<td>Y</td>
</tr>
<tr>
<td>N</td>
<td>CLS</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>O</td>
<td>CLS**</td>
<td>3</td>
<td>N</td>
</tr>
<tr>
<td>P</td>
<td>CLS</td>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td>Q</td>
<td>CLG and CIC (CLG)</td>
<td>2</td>
<td>Y</td>
</tr>
<tr>
<td>R</td>
<td>CLG*** and CLS</td>
<td>2</td>
<td>Y</td>
</tr>
<tr>
<td>S</td>
<td>CLS and registered charity*</td>
<td>2</td>
<td>N</td>
</tr>
</tbody>
</table>

* Charitable legal forms unknown
** This business had three separate sub-businesses
*** This CLG was a registered charity
During the interviews, not all participants specified that they had a separate charitable organisation, therefore the legal form of the charity was not captured. The reason the charity was not mentioned could have been because it was a separate entity to the ESE.

The explanations behind environmental entrepreneur’s choice of legal model have been grouped under three core themes, these are, operational reasons, financial reasons and ethical reasons. Another key theme was ESEs having two legal forms. Each of these themes shall be discussed sequentially.

Table 7: Choice of legal forms

<table>
<thead>
<tr>
<th>Main theme</th>
<th>Sub-theme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational reasons</td>
<td>Ease</td>
</tr>
<tr>
<td></td>
<td>Flexibility</td>
</tr>
<tr>
<td>Financial reasons</td>
<td>Attracting investment</td>
</tr>
<tr>
<td></td>
<td>Access to grant funding</td>
</tr>
<tr>
<td></td>
<td>Freedom to trade</td>
</tr>
<tr>
<td>Ethical reasons</td>
<td>Credibility</td>
</tr>
<tr>
<td></td>
<td>Finding a middle ground</td>
</tr>
<tr>
<td>Two legal forms</td>
<td>Distribution of profit</td>
</tr>
<tr>
<td></td>
<td>Regulations</td>
</tr>
</tbody>
</table>

The first main theme refers to how the legal form is to run and set up. Many participants stated that they had chosen their legal form because it was straightforward to set up, this was a common factor amongst all legal forms. The second sub-theme was flexibility, this factor tied in with the study’s earlier findings that ESEs stressed not wanting to be a charity. In this context, some participants felt that there were greater regulations and restrictions with charities, that as a CIC or a CLS, they did not have to commit to. For example, one company described not wanting “the charity commission breathing down your back”. During another interview, the participant stated, “if you’re a charity you have to do a lot more reporting and you have to have a board that you report to whereas we were pretty free to kind of get up and start trading” (Company D).
A second explanation for participants’ choice of legal model related to finance. Here it is possible to distinguish somewhat between different legal forms. Two companies that were limited by shares chose their legal models to attract investment. These ESEs described wanting to make some level of profit and to be rewarded for the risk that they had put into the business. Another two companies also chose their legal models to attract investment (Company F and I), however, their rationales were different, as they wanted to be community owned and had no other options to finance the businesses. A few interviewees chose the CIC model based on the premise that it would give them greater access to grant funding.

The final sub-theme was the importance of freedom to trade. Again, this issue was influenced by the fact that ESEs did not want to be charities. “I didn’t want to set up a charity, because I didn’t like the idea of having to influence people to give me money”, explained one participant (Company R). Similarly, another respondent stated that, “part of the reason why we wanted to be a CIC is that we didn’t always just want to have our hand out for grants...we wanted to generate money” (Company G). Likewise, another company felt that the CIC was more suitable than a charity as they wanted “to run more services and carry out more trading activity” (Company F).

There were also ethical reasons behind ESEs choice of legal model. For instance, a few participants felt that the CIC was a more credible legal form, that it would “give people confidences” and that “people would understand that it does have a genuine community intention” (Company H). In another instance, the participant felt that being a CIC would ensure that the ESE remained true to its purpose;

*I felt that it was really important that the vision and the values of our little organisation erm weren’t ever forgotten and it didn’t just become like a regular business to make money, it was always supposed to be a community business* – Company I.

The other ethical reason was a few participant’s emphasis on ‘finding a middle ground’, which perhaps relates more to the SE model than the legal form. The idea behind this sub-theme was that ESEs could sit at the centre of business and charity by having “multiple positive outputs” or by having both “a profit making and non-profit side”. This approach also seemed to emerge out of the limitations of businesses and charities, as one participant explains;

*for too long we think there’s been two choices, you either have to be sort of out and out capitalism which is all about maximising return to shareholders ..or its charity erm,*...
and that’s why we’re sort of very interested in that spot in the middle...which is that, we believe in the powers of capitalism, we believe in the importance of having a sustainable business model but we also want to have social good and our mission at the core of everything that we do – Company P.

In a similar vein, Company O states that;

the principle of what we’re trying to demonstrate is that a business can sit in that middle ground... that [profit] can be used in a good way... but I haven’t quite proven that yet, we’re in the process...but it’s certainly a harder thing to achieve.

As mentioned above, a core issue was the number of ESEs who had more than one legal model or changed structures throughout their business life, some of the reasons for this crossed over. The first issue for why participants had more than one form concerns how the ESE distributed profit. In three instances, ESEs donated all their profits to separate charities to fund a cause. Therefore, profits from the ESE would go into a separate organisation, typically, a charity or a structure that was asset locked. Having two structures enabled the ESEs to carry out commercial activities and generate a profit, whilst also ensuring the surplus was used for the company’s social or environmental aim.

A second explanation for why ESEs had two structures or changed structures related to regulations. In one instance, the company started as a CLS but was donating to overseas charities, this was a big limitation, as the founder explains;

we had to pay corporation tax on our donations because it was seen as profit and it was seen that, you know, this profit was going out of the UK and if it wasn’t going to a UK charity, regardless of the fact that it was going to an even more grassroots charity in [·], was not taken into consideration – Company R.

In this case, the company had no option but to create a separate charity to be able to carry out their work effectively and to ensure their donations went towards their social mission. The participant continued to explain how accepting donations became “really painful” as she would have to explain to people offering donations that it was “a really ineffective way of giving money” and “it would be better to donate that money to a bigger agency”.

Another respondent described a similar issue relating to corporation tax. This company started a subsidiary that was owned by the CIC, to not be taxed on grants, “if we got a grant, for
example, in one financial year but if it wades into the next financial year, because we’d have the money it would be seen as profit”. All the shares of the subsidiary were owned by the CIC and therefore the business was asset locked. Company Q also had two organisations, however, this participants reasoning was because of VAT, “for the first year of the CIC we didn’t need to be VAT registered but then of course we started selling expensive assets and then we quickly hit the VAT threshold”. The interviewee explained that their rationale was to have one company doing the commercial recycling and another to sell all the products, however, this ESE was in the process of closing the CIC as he found having two organisations more difficult to manage.

There was an exception to these themes of a company who had more than one legal form to manage their assets, or in the participant’s words, “to keep the assets safe”. This company was made up of an IPS (CBS) and a CIC (CLG). Like the other businesses, this ESE had one organisation to generate an income stream and another to donate the profits to which went towards the company’s environmental mission. Having two structures enabled the ESE to access different benefits; the IPS allowed the ESE to attract investment and keep the assets safe, while the CIC allowed the business to attract grant funding.

Some of the reasons as to why ESEs changed legal form have been touched upon throughout and relate to how ESEs distribute profit, the nature of their work and how they manage their assets. There were a few variations to this, one of which related to the theme of credibility and the participant’s motivations, for instance, Company C transitioned from being a CLS to a CIC as they felt it would send “a clear statement that the company was in the business of being a community company”. This participant described initially wanting to “make a small income out of the business” but had since felt that his motivations were to make the “business a success”. Though, it is unclear what this participant means by success, the statement captures a change in the individual’s motivations. Similarly, another company started a charity because of his motivations to help disadvantaged people. One company was unable to comment on why the ESE had changed legal form, although based on secondary data, the IPS aligned more with the activities and ethos of the business.

The following paragraphs will address how supportive the SE model and legal structure is in enabling the ESE to achieve its aims. In specific, it will outline the main benefits and constraints that came to light throughout the analysis. To understand how supportive each legal form was, participants were asked the likert scale question: how supportive is the legal model in supporting the ESEs aims - very supportive, somewhat supportive, not very supportive or not
at all supportive. The results were mixed, although more people rated the legal form as supportive or very supportive than not very or not at all. This is not entirely consistent with the results which suggested that the legal form was more of a constraint than a benefit. However, some participants felt that there were no constraints with their legal form.

Some of the benefits that emerged reflected participants’ rationale for choosing their legal structures. Participants mentioned being trusted, greater community engagement and building confidence in the brand as key advantages, reflecting the theme of credibility. These factors were specific to CICs, CLG and one CLS who had an asset lock. A few companies that were CICs also felt that the model had helped them to gain wider support. For instance, one participant explained being “more likely to get business from say a charity or a local authority”. Other participants also felt that the CIC model had enabled them to win contracts with the council and one participant thought that people “who know the social enterprise sector a little better may look on you more favourably”. A few CICs also described access to grant funding as a benefit, however, overall, this was a small number of participants.

Interestingly, accountability was another benefit that surfaced, despite the previous findings that showed some participants viewed regulations as a restriction when choosing their legal structures. For example, one respondent explained that being a CLS as opposed to a sole trader meant the structure was “a little bit more governed, ... it means we’re a bit more of an open book which some businesses would prefer it not to be but I’m quite happy for other businesses and people to know how we are doing”. Similarly, having the ESE under a charity, for one participant, meant the ESE was more accountable, “it’s so much more clear cut, its owned by the charity, simple, easy-as, nobody raises an eyebrow because they know therefore it is governed”. Accountability was cited as a benefit by companies with different legal structures.

There were a range of constraints mentioned around the legal model, as well as the SE structure. Some of these come as no surprise, for example, how certain legal models reduced ESEs access to different types of funding. This applied to different legal structures. For example, as mentioned previously, one participant who changed from being a CLS to a CIC was unable to attract external investment as the investor would not get their return. Another participant who changed from a CLS to a charity gave emphasis to not having received any financial assistance to provide support to beneficiaries, “we’ve had no help or support at all to be able to accommodate these guys, as a private limited company we get nothing... and I mean not a penny more”. Similarly, another environmental entrepreneur felt that if they weren’t a CLS
they “would probably get more favourable treatment” in relation to their loan conditions. An IPS also described difficulty in not being able to “borrow money in the usual way from banks”.

There were also regulatory constraints around corporation tax and VAT as highlighted in the previous paragraphs. In these instances, ESEs changed or created more than one legal structure to be able to work effectively to ensure their donations and grants went towards their cause. However, there were also a few constraints with having two forms. Firstly, participants mentioned the complexity in managing two organisations, having “more administration” and “double the accountancy fees” were additional burdens. Another issue arose from one participant who described “losing focus”. “You split the teams and it’s difficult to control what staff do, it’s difficult to control the finances and just focus on what it is we’re trying to achieve”.

This ESE offered many different services and therefore found it difficult to summarise what work they carried out. A similar issue regarding retaining focus was described by another participant who stated:

> that's the hard bit, when you want to set the benchmark and be an environmental led business where do you draw the line and say we work within this scope, rather than outside and try to do everything – Company S.

It appears that the issue of focus is not confined to ESEs having two legal forms but the SE model more broadly. As discussed in the initial paragraphs, ESEs described wanting to ‘find a middle ground’. However, this was also discussed as a constraint by a few participants. For example, some respondents described the SE model as being “the best and worst of both worlds”, and as feeling “stuck half-way”. In some of these instances, this had implications for the businesses ability to access certain finance. For instance, one participant described the difficulty in being “neither a full business or a charity”. She felt that wider organisations such as the local council, and local funding organisations saw SEs as businesses that could “stand on [their] own two feet” and expressed how they could “apply in partnership for grants to strengthen the bid but it just seems like there’s no communication about that” (Company D).

In another interview, a participant expressed a similar difficulty regarding accessing finance;

> I think we do find ourselves again sitting in the middle of not being a charity so we can’t apply for grant money in the same way and we don’t necessarily get the same conditions that you can do when you apply for certain loans, erm but then we’re also,
sort of choosing not to raise money from, er, let’s say some of the sort of traditional institutional investors because they’re purely profit driven – Company O.

In the former company’s case, the lack of finance influenced the ESEs focus and ability to achieve their mission, explaining that the pressure to meet their financial needs, meant that “the social impact we have is something we can only sort of fit into that from time to time”. Similarly, another participant felt that there was a compromise with ESEs explaining that “the CICs that are the most successful as businesses don’t deliver as much social impact”. These findings illustrate the influence of the ESEs financial situation in determining where their focus lies. They also point to another concern within the research regarding whether there is a trade-off between ESEs environmental and commercial goals. Consequently, it is possible that some ESEs may ‘fall between the cracks’ in accessing finance which may affect these businesses ability to achieve their missions. However, the significance of this finding is unclear, as there were few participants who spoke of being in the middle as a constraint.

The final constraint that surfaced concerned the reputation of ESEs, firstly, in relation to the professionalism of CICs and the SE model, and secondly regarding people exploiting the model. Several participants viewed CICs as less commercial. Other participants expressed a concern that SEs in general, and CICs more specifically were considered “second rate businesses and wouldn’t attract the best staff” or that people would think that the “work was really low standard”. One participant believed that there was a “reputational danger” around SEs, meaning that things were “less commercially sound” or professional. Finally, there were some concerns around people exploiting the SE model. One company felt that having a SE that was partly a limited company and partly a CIC could be “cheating the system”. Another participant felt that there was a risk “that people could trade on the back of we’re trying to make a difference” and run off with the money if the business wasn’t asset locked.

Overall, the benefits and constraints of the SE and legal model are similar. It seems that CICs may benefit from greater access to funding and wider support, while some CLS may find themselves less able to access certain finance and receive less ‘favourable treatment’. This may partly be down to the idea that companies with an asset lock are considered more credible legal forms. The former legal models described gaining more trust, confidence and engagement with the wider public. Furthermore, there are some regulatory constraints that have impacted on ESEs ability to achieve their goals. Though ESEs have shown adaptability in changing and creating new structures, ESEs may be at greater risk of ‘losing focus’, either from having two
structures or because of difficulties around ‘being in the middle’. Finally, there are issues around the reputation of SEs, as they may be viewed as less professional by external organisations or SEs themselves.
5.3. Performance

This chapter discusses how ESEs perform. To do so, it will consider the following sub-research questions; firstly, what business practices do ESEs have, secondly, do they face conflicting goals, if so, how do ESEs make decisions in the face of such conflicts, and fourthly, what are ESEs views on upscaling. The final sub-question will discuss any other barriers ESEs face, before summarising key findings and considering their overall strengths and limitations in the discussion chapter.

5.3.1. Business practices

In an earlier chapter, it was illustrated that ESEs set a strong example, by having strong social and environmental values and aiming to be as environmentally sustainable as possible. Most of the ESEs business practices corresponded with their approach, illustrating that environmental entrepreneurs had integrated many of their values into their businesses. However, there were some ESEs who appeared more conscious of their environmental impact and business practices than others. Another important factor to mention, is that while most ESEs seemed genuine, there were potentially one or two participants who appeared unsettled by certain interview questions, this led the researcher to question the trustworthiness of some of their responses.

Several ESEs offered an environmentally superior product or service, in how they produced products and what materials they used, for example, one ESE did not import any raw materials and ensured everything was produced in the UK. Their product was 100% recyclable and some of their products were made from 80% recycled materials. In another instance, an ESE selling bottled water used artesian spring water, in which the water “rises to the surface on its own” as opposed to digging a borewell or extracting water from the water table (Company R). Some ESEs who worked in the reuse and recycling sector, aimed to make the best environment use of their resource, with one ESE ensuring that “as much as possible of what we collect is reused, not just “downcycled” into woodchip” (Company E). There were several ESEs who were also highly innovative, pioneering environmental superior materials or services, such as a transport service ran on 100% recycled waste cooking oil or developing the lightest clear glass bottles in the market.

A core theme that stood out was the environmental business practices that many ESEs had adopted. These tended to centre around the company’s approach to waste, reuse and recycling.
or having a low environmental or carbon impact. In two cases the ESEs were carbon neutral. In many cases, participants described having a “recycling ethos” throughout the business and producing very limited amounts of waste. “If you come into our office, I would say 95% of the equipment... is stuff we've collected from clients” described one ESE working in the reuse sector (Company M). Another company who recycled bikes, described being particularly proud of producing “one wheely bin amount of waste” every two weeks, as some “small residential flats produce the same amount” (Company D). There were also ESEs who did not adopt many environmentally-friendly business practices, however, what several of these businesses highlighted was their “low impact” due to the nature of their work, working remotely, not having an office or any vehicles. Those that did have vehicles also attempted to lower their environmental impact by using shared vehicles, relocating their offices closer to staffs’ homes or using vehicles that were lighter and used less fuel.

Furthermore, there was a social ethic that ran through many ESEs business practices. Again, this corresponded with the values discussed in the previous section, such as fairness and responsibility. These values influenced ESEs business practices in several interesting ways. Firstly, it meant that ESEs were conscious of who they worked with and in many instances, participants worked with businesses that had the same strong values. For example, one interviewee stated, “if a mining company wanted to hire buses...or something, I think we’d say no that’s not really compatible we don’t wanna mine coal we wanna keep it in the ground” (Company I). Similarly, another environmental entrepreneur states, “we wouldn't dream of working with a partner who wasn't paying living wage, doesn't have the right policies in place, the right ethics” (Company S).

ESEs social ethic also showed in their commitment to supporting the wider community, for example, one founder mentored other social enterprises in their spare time, other ESEs put on extra initiatives that weren’t necessarily for commercial gain. For instance, one ESE ran a bike training workshop that they did not receive any funding for. Another company ran a walking programme;
you know this is not gonna make us money but it’s worth doing for other reasons so let’s just do it anyway. (Company I)

Similarly, several ESEs mentioned doing things for free or at low cost. For example, one participant explained that they often get customers who have very little money and so they tried to sort their bikes out at low cost. The ESE who had set up a charity to help disadvantaged people explained that the ESE had paid for all of the beneficiaries’ support and training. It is important to note that there were exceptions of ESEs who did not have a particularly strong social ethic incorporated into their business practices. In these instances, the fact that several ESEs had one or two members of staff is likely to have played a role, as there was potentially less scope to include social business activities. A second consideration is that though these businesses showed a strong social commitment in how they operate, they may also be compromising their financial aims in some circumstances. This leads on to the next section regarding whether ESEs face conflicts between their social, environmental and commercial goals.

5.3.2. Conflicting goals and decision-making

The results of the study showed that most ESEs face some sort of environmental, social and commercial trade-off. What differed was how often ESEs were confronted with these types of situations and how they responded when faced with such dilemmas. For instance, participants were asked whether they perceived there to be a trade-off between their social, environmental and commercial goals, or whether they felt the need to balance these aims. There was a mixture of responses with some participant’s stating ‘everyday’ and others saying very little or to some extent. A few participants felt that there was no trade-off, in some cases this related to how they made decisions, in other instances, respondents felt that the better they did financially as a business the more impact they could have, which also corresponds with ESEs views on profit highlighted in section 5.1.2. For example, one founder states that “we’ve found that every year we’ve kind of sorted our shit out a bit better... and like tried to do more community benefit stuff, we’ve also ended up making more money that year as well (Company I)”. In a similar way, another participant commented, “the more people we can get using [the app], the more revenue we can generate, and the more valuable the company can be... but also the more people who are using [the app] the more food is saved” (Company P).
The ESEs who felt there was a trade-off described various types of situations that differed in their level of importance. For example, some businesses described coming across minor situations every day, whereas other participants might have come across a very difficult scenario every few years. The common thread in these trade-offs was that often the socially or environmentally better option was costlier, it meant compromising on the amount of money made, or conflicted with the ESEs values. Some of the situations participants mentioned included, how the entrepreneur spent their time, how they paid young adults, i.e. whether they were paid a living wage, minimum wage or nothing, the trade-off in not being able to sell certain reused goods even though they were fit for purpose, and the costs involved in using a green printing company or being carbon neutral. In several scenarios, the environmentally better option risked negative social impact due to the higher cost of the product, for example, one participant states "how do you increase and better represent the true cost of providing heat, but in a way that isn't divisive for people in fuel poverty" (Company F). Likewise, another respondent described continuing to produce a product that was not necessarily the best option environmentally but meant that it was more inclusive for people with less money, she stated "there are people out there who want to be more green but to restrict it to people who have lots of money...is again a restriction and that's not the right message to be giving" (Company R).

Participants also varied in how they made decisions, however, there were some common themes. In correspondence with earlier findings, entrepreneurs gave emphasis to what was commercially viable, at the same time, many of them emphasised trying to find the best option environmentally and/or socially. For example, one participant described making “the best decision with the budget that we’ve got” the best in this context meant being environmental (Company R). In another discussion, the participant states;

if you’re too principled you might just put yourself out of business, so we want to maximise our ability to do good but we want to be, you know, we want to be sustainable, financially sustainable at the same time (Company O).

In many instances, dealing with dilemmas involved a balance of different factors, for example, some participants mentioned the triple bottom line of profit, planet and people. Another ESE described the importance of balancing how finance was distributed;
you've got to be very clear... when you're spending funds, are you spending those funds for the learning or does it have to make you a return? So... the money that people invest in us... is all being spent on income generating proven models whereas [with] surplus we've got more freedom to explore and innovate, which may not be immediately commercially successful (Company F).

Furthermore, there were participants who said they would put their environmental values first and compromise on how much profit they made, although in some of these scenarios the financial status of the organisation seemed important, meaning, they tended to be financially better off. One ESE who had an interesting decision-making process explained:

if this reduces the environmental cost of this process, or making the product, or the end outcome we're achieving, if it reduces it, then we want to do it, and we would invest in it, even if it cost more. If there is an initiative... to do something with less cost, as long as it doesn't take our footprint backwards, we would still do it (Company S).

There were also several instances where ESEs stressed the social rationale of what was “the right thing to do”. A number of ESEs also mentioned having a board of directors or a committee that would debate and discuss what the issue might be and how to go forward.

Overall, the findings suggest that all ESEs have different decision-making processes, but there are some common themes. Some ESEs place commercial viability before their environmental goals, though this is often in unison with trying to find the best environmental option or because of commitment to their environmental or social goals. Equally, there were some ESEs that placed their environmental values before profit, but seemed more able to be able to do so, due to their financial position.

5.3.3. Scaling up

To better understand the potential of ESEs, participants were asked what their thoughts were on scaling up. This study refers to scaling up as ESEs growing in numbers or size, taking over a larger fraction of the total market. The three main themes that emerged on this subject related to views on scaling up, conditions and risks. In light of the first theme, the results showed that ESEs had different conceptions of scaling up. Consequently, a number of participants were
keen to grow in terms of size either by number of staff, turnover or expansion. There were several others who were also interested in franchising and replication. While a few other participants expressed an interest in scaling up through impact, i.e. increasing the numbers of ESEs in the market. For instance, one participant described wanting “to see an affordable, sustainable transport option in every community in the country” that had “shared values and a common purpose but [was] operationally independent and locally-owned” (Company I). Similarly, another ESE expressed wanting to “be a catalyst”, in her words;

its not about us getting bigger... its about the sector getting bigger. You want to upscale the impact but you don’t necessarily have to deliver it and own it all yourself - (Company F).

The lack of a clear definition for scaling up meant that many ESEs interpreted the concept as equal to growth in size. Therefore, when discussing the conditions for scaling up, their responses mirrored this interpretation. For instance, several participants felt that investment or funding was highly important for them to be able to grow. However, there were several ESEs that were not purely concerned with growth in size but also in social or environmental impact.

The third theme related to scaling up as a risk. Again, this was influenced by ESEs understanding that scaling up meant to grow and expand, similarly to a traditional business. The common idea in this instance was that growth threatened ESEs standards and values. For example, Company H described how its host organisation was “a victor of its own success”. He explained, “it’s got too many orders that it can’t cope with the volume so its had to split off to another ESE”. From the participant’s perspective, this was a way of “avoiding becoming too big” and “keeping it as a local as possible”. In a similar fashion, another participant felt that being small meant that it was easier to maintain the businesses cultures and values, because with size came “so many other pressures” and made internal communication much more difficult (Company R).

5.3.4. Barriers to performance
There are several important barriers that influence ESEs ability to perform that have not yet been mentioned. This section shall address each of these issues before assessing ESEs overall strengths and limitations. There were three core themes that interconnected with ESEs performance, these related to competition and commercial viability, government policy and
regulation and wider interest and engagement. Each of these themes shall be discussed in the following paragraphs.

The first issue could be thought of as a triangular relationship, with three interrelated factors, namely, commercial viability, cost or price and scale. There were opportunities that were not commercially viable for ESEs to pursue due to working at a smaller scale and the higher costs involved in offering a better quality product. In some instances, this meant that ESEs were less able to compete on price. For example, one ESE described that one of his aims when setting up the company was to have a small mill to process their own yarn, however, he had not been able to achieve this goal, as it was not commercially viable, he explained, “to do so with a small turnover of yarn that we would have, its expensive not just the setting up of it but running a small mill is expensive” and when asked whether there was anything he would change to be able to compete more, he stated;

[our competitors] are working with vast quantities of wool and yarn compared to us and therefore the processing costs of theirs is much less and therefore the final product is less. We can’t afford to charge less than we do, so that’s really the only way that you could change things, is if you were on a much bigger scale – Company B.

Similarly, another ESE described having difficulty recycling certain products, in this example he talks about struggling to recycle printers;

They’ve got so many working parts of plastic and metal, that to physically have someone standing there breaking down a printer, will take more than a day erm and the component parts are worth what, £10. So there’s assets and ways of recycling that don’t suit small businesses that need bigger players – Company M.

Another interesting example was given by an ESE who was working on an innovative energy project, enthusiastically, the participant explained how the ESE had got through the first stage which was proving the project was possible technologically. The second stage, the participant explained, was seeing whether it was financially feasible, she explains;

Currently the cost of gas is so low that you just cannot make the figures back up. So there is a question... in a world where you're not really paying the true cost of energy, um, is it ever going to be possible? Particularly on heat which is a massive area in terms of our carbon footprint, that’s always going to be a massive barrier to overcome – Company F.
The second barrier to ESEs performance was government policy and regulation. This was by far the most commonly mentioned issue. Central to this was the costs or lack of financial incentives provided by the government. For example, several participants mentioned the fact that there was no tax incentive for ESEs. Other participants felt there should be differential or no VAT on recycled products to encourage more people to sell recycled products and more people to buy them as the price would be cheaper. Agricultural subsidies were also a considerable concern which several participants felt strongly disregarded small scale farmers. There were also changes in government policy, such as cuts in subsidies for the solar industry, which had had negative repercussions for ESEs. For example, for one ESE their main source of work had been with solar developers, therefore, the cuts in subsidies had resulted in less work for the company. In another instance, the ESE described that their original business model was “developed for very different times...it was reliant on...a few different tariffs for income and ... a different level of... support for community energy from a government level and, it’s just not there anymore” (Company F). Both ESEs were uncertain about how they would go forward.

Heavy regulation and bureaucracy also impeded ESEs ability to achieve their goals, as one participant’s comment emphasized, “in the environmental world, you’ll find that there’s permits needed for pretty much everything, and as a small business, that’s a real challenge” (Company Q). The T11 license, which is a license to repair broken equipment was a commonly cited issue.

*I think its £800 a year for what they call a t11 license... that’s the license you need just for the privilege of being able to repair broken equipment, that’s all the license entitles us to and it’s one thing that does concern me, hang on why are we putting a license on these guys who are trying to recycle kit, surely it should be on the people scraping the equipment rather than those trying to rework it – Company M.*

During another interview, the participant felt frustrated at being captured by regulations that he felt were “sensible” but “over the top”. He gives an example of needing an abstractors license when putting in a hydro scheme, “the license is to take water from the watercourse, this was because farmers took water from the water course to feed it to their cows”, the hydro scheme was however non-consumptive he explains, “*but the regulations weren’t built for non-consumptive abstraction*” (Company G).
The final factor that was a hindrance was wider interest and understanding. For example, one ESE described a frustration with consumer attitudes.

*We’re trying to provide something that’s been upcycled and we’re up against people comparing that with very cheap production systems for new products...people often think if I buy something new its gonna be better which is not always the case – Company D.*

Another challenge revolved around communicating the issues ESEs were trying to address. For example, one ESE stated “*we lead probably more with the community angle...rather than, oh my gosh we’ve got to stop the problem of food waste because it’s the third largest source of greenhouse gas emissions*”, because they found it did not resonate with people (Company P). Similarly, another participant emphasised difficulty in communicating environmental issues, using phrases such as “*it’s promoting a solution without banging on about it I suppose*”, and “*it gets very overtly political which then might put people off*” (Company H).
6. Discussion

This study set out to explore how environmental social enterprises could contribute to creating more sustainable societies and identified three core areas to generate insight into, based on the research objectives. These areas were; what characterises ESEs in regards to their motivations and what they do as a business, how do they function, meaning, how do they sustain themselves financially and how does the structure help or hinder the ESEs aims. The third area examined how ESEs perform, including what business practices ESEs had, how they made decisions, and what wider barriers they experienced that impacted on their performance. In this final chapter, the study’s key findings will be summarised and interpreted and the strengths and limitations of ESEs brought together in 6.4.

6.1. What characterises environmental social enterprises?

A central focus of this study was to find out what motivated environmental entrepreneurs and how their motivations differed to traditional firms, in other words, were participants driven by more of an individualistic or a social rationality. This study found that environmental entrepreneurs have mixed social and environmental motivations which they incorporate into their missions, such as a desire to help people, to improve the environment and to strengthen the local economy, demonstrating that ESEs go beyond a concern for the ‘I’ to a concern for the ‘We’. To strengthen the credibility of this finding, interviewees were asked various questions to explore how their motivations weighed against each other, such as ‘how important is profit to you’, and ‘are you more mission or more market focused’. As highlighted in the analysis, the results showed that many participants are highly mission focused and equally stress the importance of operating as a business, ensuring they are commercially viable and financially sustainable. Similarly, many participants viewed profit as necessary to fulfil their missions or to ensure the businesses financial security. A number of participants also believed that social, environmental and economic goals should be of equal proportion. These findings are intriguing. They suggest that environmental entrepreneurs are largely balanced in their focus and seek to fulfil both environmental and commercial objectives, as opposed to compromising one aim to the detriment of the other. Profit is no longer an outcome but a means to achieving a social and environmental outcome. Also, participants’ emphasis on operating as a business mainly stemmed from the ineffectiveness and financial limitations of the charitable...
While earlier findings have identified the latter factors as important to ESEs emergence (see Perrini 2006), this research goes one step further by demonstrating how the limitations of the charitable sector have contributed to environment entrepreneurs’ motivations and how they operate their businesses.

A second focal point of the study was to find out more about what ESEs do as a business and to achieve environmental impact. The results showed that ESEs are diverse in scope, not only in the sectors they work in but in the types of activities they fulfil, with many ESEs offering various products and services within the same business. One potential explanation for this is that being diverse enables ESEs to better survive, for instance, by being more competitive and having various income streams. Another reason for ESEs diverse activities could stem from some participant’s motivations to make the most of environmental resources, rather than waste certain materials. These findings are encouraging as they suggest that the potential of ESEs may have been underestimated; ESEs diverse working activities may reduce environmental impact while giving these businesses more of a competitive edge than previously assumed. However, in some circumstances, being committed to sustainability may put the business under greater pressure to achieve their financial aims, suggesting that striking a balance between commercial and environmental goals may be more of a difficult task for some businesses than others.

ESEs are also diverse in regards to what they do for their environmental missions, reflecting participants’ mixed motivations. As mentioned in the analysis, this study identified two broad themes apparent in ESEs approaches. These themes were seeing the bigger picture and setting a strong example. Seeing the bigger picture referred to ESEs who take a bottom-up approach to creating wider social change, for example, by working locally to strengthen communities and the economy, empower disadvantaged groups and influence consumer behaviour. The second theme was about ESEs intentions to set a strong example, for instance, by offering an environmentally superior product, having strong environmental and social values, demonstrating best practice and aiming to influence wider industry. In addition, though all ESEs had different missions, many sought to address resource use and climate change, suggesting that many ESEs take a long-term perspective on societal issues.

The implications of these findings are important. The combination of bottom-up and top-down approaches suggest that ESEs may be well-placed to stimulate institutional change at a societal level. ESEs who see the bigger picture have the potential to influence and engage with the
wider public, to foster new norms and behaviours that encourage positive environmental actions. While ESEs who adopt the second approach, may encourage new standards for businesses, encourage the competition of sustainable behaviours (Pacheco 2009) and help to stimulate wider industry change.

6.2. How do environmental social enterprises function?

This study set out to explore how ESEs sustained themselves financially; of importance was what types of finance these businesses could access and how they managed to survive. As illustrated in the analysis, ESEs used various types of finance to set up and to sustain themselves, including, trade income, personal savings, grants, loans, and external investment. The fact that ESEs could access different sources of finance is positive and suggests that the latter may be less of a barrier than expected. That some ESEs benefitted from more relaxed conditions with external investors, such as whether they paid dividends or not to some extent strengthens this proposal. However, the conditions around investment is likely to have been influenced by the types of investors that were involved which was not always clear.

Furthermore, the fact that many ESEs appeared to be self-sustaining, i.e., generating the majority or all their income from trade is promising in terms of ESEs ability to survive financially. It is possible that the resilience of these businesses may have been overlooked. For example, like previous research many environmental entrepreneurs had limited finance and resources when setting up and made use of what was available to them. However, this study identified different strategies that entrepreneurs used to keep their costs low, such as outsourcing, working from home or not having vehicles. By employing different strategies, ESEs avoided additional costs and enhanced their ability to survive, suggesting an adaptability to ESEs that has been captured in few studies.\footnote{Kirkwood and Walton (2014) found that entrepreneurs adapted well to balancing their environmental and business goals.}

However, there were a few ESEs who had faced financial barriers setting up, or felt that funding was a barrier to improving the businesses financial security or investing in the company. For example, a few ESEs who were self-sustaining struggled to survive or make a profit, concurring with the findings of Vickers (2010) who notes that ESEs can struggle to cover their costs and generate surpluses either for reinvestment or to strengthen the businesses financial position. In
one circumstance, the lack of profit led to ‘mission drift’ and blurred the ESEs identity. In a few instances, ESEs appeared to be using grant money as a form of income. Though, these businesses had other sources of income, this finding brings into question the financial sustainability of some ESEs. Also, while the businesses that struggled to survive were few in numbers, further research in this area would be beneficial to see whether generating a profit is a requirement for ESEs to survive and achieve their missions, including whether mission drift, is indicative of a broader trend.

Another key component that relates to how ESEs function is their structure. This study is one of few to examine the supportiveness of the SE and legal model, including how the latter might facilitate or constrain different types of behaviour. The analysis highlighted three broad themes behind individuals’ choices of legal forms. These were, operational reasons, financial reasons and ethical reasons. Another key theme was ESEs having two legal forms, or changing structures throughout their development, this will be discussed in the third paragraph. To summarise these findings, the first theme referred to the ease of setting up the model and the flexibility around regulations that being a CIC or CLS brought, as opposed to being a charity. The second theme showed that the ability to attract investment, raise grant funding or have freedom to trade were important factors in participants’ decisions. The third theme related to the idea that certain models, namely, those with an asset lock, were more credible legal models. Within this theme was the idea of ‘finding a middle ground’, which is perhaps about the SE model more than the legal form. This referred to the ability of SEs to sit in the middle of business and charity by creating multiple positive outcomes.

When assessing the supportiveness of the SE and legal model, this study identified various benefits and constraints, some of which overlapped with participants’ rationale for choosing their legal forms. For example, CICs were viewed as more credible in the eyes of the public and in turn, this had enabled some ESEs to benefit from community engagement, or attract more business, suggesting that this structure is important to promoting a social rationality. In regards to constraints, some CLS were unable to access certain types of funding and described getting less favourable treatment. The implications of these findings suggest that being a CIC over a CLS, may have some advantage regarding the credibility of the business and the conditions around finance. However, the significance of this finding is unclear, since the reporting of CLS getting ‘less favourable treatment’ was limited.
A key finding of the study showed that many ESEs changed or combined different legal forms to enable them to work more effectively and overcome certain constraints. This is one of few studies to our knowledge, to illustrate the ability of ESEs to adapt in this way. As mentioned in the analysis, having more than one legal form enabled ESEs to distribute profit effectively, for example, by having one entity that generated an income stream and another to donate profit to that was asset locked. Having two structures also enabled ESEs to gain different benefits, such as the ability to attract investment and to apply for grant funding, or overcome certain constraints, for instance, by ensuring they were taxed effectively and not on donations or grants. These findings are intriguing. Up to this point this study has emphasised how different institutions foster different logics; however, these results demonstrate the ability of the individual to seek an institution that best fits their logic. The fact that a few entrepreneurs changed or established new legal structures after a change in their motivations reinforces this point. These findings add weight to earlier work which found that entrepreneurs are in a fluid rather than static state (Gibbs and O’Neil 2013), while adding a further dimension of how entrepreneurs’ motivations impact on the function of the business.

Another important constraint related to the SE model and the notion of ‘being in the middle’. This study identified the latter to have implications for how some ESEs were viewed and their ability to access certain finance. As mentioned in the analysis, one CLS linked ‘being in the middle’ with being unable to access grant funding, and equally chose not to raise money from traditional investors because of their primary focus on profit. This finding demonstrates the influence of the entrepreneur’s motivations on their choice of finance, implying that in some circumstances entrepreneurs may avoid certain sources of finance that may encourage individualistic behaviour, regardless of their legal structure. A second issue was that the combination of ‘being in the middle’ and a lack of finance caused one ESE to experience mission drift, illustrating the importance of the ESEs financial situation in determining where their focus lies. From a practical perspective, it is possible that some ESEs may get overlooked in regards to the finance they can access, consequently, more research would be beneficial to establishing how the institutional structure may influence opportunities for finance.

Furthermore, several participants described a concern that people would view SEs as less professional businesses. Also important, was the suggestion by a few participants that the SE model could be exploited, either by traditional businesses masquerading as SEs or by people who could capitalise on the idea of ‘making a difference’. While this was not a concern with ESEs in this study, more could be done to support and generate wider awareness of SEs.
6.3. How do environmental social enterprises perform?

A key area of this study was to find out how ESEs performed compared to traditional firms. This study found that environmental entrepreneurs do run their businesses in a different way and with a different organising logic (Tilley and Parrish 2006 cited in Gibbs 2009). The fact that most ESEs practices corresponded with their approaches, suggests that many participants had integrated their values into their businesses, whether this was in the way they manufactured their product, pioneering innovative practices, or fostering a recycling and low impact ethos throughout their companies. Interestingly, though some ESEs did not adopt as many environmentally friendly business practices, some of the strategies that enabled them to survive financially also enabled them to keep their environmental impact low, for instance, by working remotely or not using vehicles. Several ESEs were also found to embody a strong social ethic, for example, by being conscious of who they worked with and supporting wider causes even if people were unable to pay for their services. These findings suggest that ESEs are setting an example in the way that they perform. Not only are these businesses playing an important role in reducing environmental impact, they are fostering a logic based on the common good.

Given this context, a fundamental question was whether ESEs faced conflicting goals between their social, environmental and commercial aims, and how they made decisions when confronted with such situations. Only one other study, to our knowledge has examined the decision-making processes of ESEs in this context (see Kirkwood and Walton 2014). The results showed that almost all ESEs faced some sort of environmental, social and commercial trade-off, such as how they paid young adults, not being able to sell certain reused goods or the costs involved in being carbon neutral. However, a surprising result was that some participants felt that there was no trade-off and that being more profitable enabled them to achieve more social or environmental impact. This corresponds with some entrepreneurs’ views on profit; that more surplus would enable ESEs to achieve greater impact. This result was unexpected and suggests that in some scenarios, profit may not conflict with ESEs ability to achieve environmental impact. However, this was not the case for all ESEs.

This study found that ESEs have different decision-making processes. Some ESEs placed commercial viability before their environmental goals, though this was often while trying to find the best environmental option, or in some cases, because participants viewed commercial viability as crucial to their survival. Other ESEs sought to balance social, environmental and economic goals. At the same time, there were some ESEs that placed their environmental
values before profit, however, in these cases, this was not in such a way as to put their financial position at risk. In these instances, the ESEs strong financial position may have contributed to their ability to make certain compromises. However, in one scenario, the participant connected the company’s difficult financial position with the ethos of the business, implying that there are cases where such trade-offs do impact on ESEs ability to survive. The implications of these findings are significant. Overall, ESEs balance environmental and commercial goals and make certain compromises where they see fit. At the same time, ESEs are conscious of the need to be financially sustainable and in most instances, will not make compromises where it could threaten the stability of the company. These results contrast with much of the literature which suggests that the competing logics that SEs combine may threaten their survival (Dixon & Clifford 2007; Lee & Battilana 2014; Lundstrom et al. 2013). Nonetheless, there may be some scenarios which do threaten the ESEs ability to survive. These findings reinforce the idea that ESEs are largely balanced in their focus. They are also promising in that they demonstrate that it is possible for ESEs ability to survive economically, whilst creating positive social and environmental outcomes.

In addition, the study’s findings on upscaling is also a promising indication of ESEs potential. Though the different understandings of upscaling is a limitation, the fact that many businesses had desires to grow, and were interested in the idea of franchising or replication supports the finding that many ESEs have strong ambitions. Equally, some participants were keen to scale their impact by increasing the number of ESEs in the market. There were a few participants who had no interest in growth and were keen to improve their services. In regards to conditions for upscaling, several participants felt that investment or funding was highly important for their businesses to be able to grow, suggesting that this could be a potential barrier for ESEs. In accordance with other research, our results showed that a few participants viewed growth as a threat to ESEs standards and values (Hockerts and and Wustenhagen 2010), and in retaining a local focus (Vickers and Lyon 2013). However, this participant took a less conventional view of upscaling, and was interested in scaling up the numbers of ESEs. The lack of a clear definition of upscaling is certainly a limitation of the study and a proper explanation of the concept would have provided a better picture of this topic. Nonetheless, the findings reinforce the idea that many ESEs have strong ambitions and a desire to affect societal change, implying that these businesses have a lot more to offer.

Finally, this study identified several barriers to ESEs performance and ability to achieve more. Firstly, an important limitation was that for several ESEs, some opportunities were not
commercially viable due to the smaller scale that ESEs worked at and the higher costs associated with providing an environmentally better product. In some cases, this meant that ESEs were less able to compete on price. This was certainly not the case for all ESEs. However, it is a potential barrier that could influence some ESEs ability to achieve more, to invest or grow as a company. Another key barrier was the role of government policy and regulations. The lack of financial incentives such as tax breaks, differential VAT on recycled products and agricultural subsidies for small farmers were some frequently mentioned issues. Several participants also expressed concern with changes in government policy and the lack of a supportive approach, for example, to renewable energy. In a number of instances, participants described difficulty in having to deal with heavy regulations and bureaucracy, which often came with additional costs. These findings indicate that a lack of financial incentives, coupled with high costs in regulations place a considerable burden on ESEs that could be significantly improved. There is substantial room for government policy to be improved in order to provide a more supportive environment to ESEs, specifically, one that eases regulations and provides financial incentives such as those outlined above.

6.4. What are the strengths and limitations of ESEs considering the findings?

ESEs are driven by entrepreneurs with strong motivations that they instil into the company. These motivations go beyond traditional profit-maximising aims to a concern for the collective and what is the ‘right thing to do’. Such motivations are evident in the ESEs values and approach to business, for example, by working to empower disadvantaged groups or promoting values based on fairness, trust and transparency. Indeed, the entrepreneurs’ motivations influence how their businesses perform and many ESEs demonstrated that they are setting new standards in the way that they conduct their activities. Entrepreneurs’ commitment to the environment was evident not only in how they manufactured products or ran their services, but through pioneering innovative practices, or aiming to lower their environmental impact. Consequently, this study agrees with Allen and Malin (2008) that ESEs embody a unique set of values that have the potential to change the way that business is done.

Another strength of ESEs is that they are mainly balanced in focus. ESEs were found to be highly committed to their missions and were equally conscious of operating as a business and sustaining themselves financially. This was evident in ESEs financial positions, the fact that most ESEs were financially independent is promising in terms of these businesses potential.
ESEs balanced focus reflected in how they made decisions. It was demonstrated that ESEs placed the environmental before profits when it was financially feasible to do so, or in some cases, led with their environmental values without risking their financial stability. This concurs with the work of Kirkwood and Walton (2014), while adding authenticity to the trade-offs that entrepreneurs may face. ESEs demonstrate that it is possible to do business whilst creating positive social and environmental outcomes and this study has contributed to understanding the institutional conditions that enable them to do so.

The final key strength was ESEs resilient approach. This was reflected by ESEs adopting different strategies to survive financially, whether that was by making the best use of limited resources, offering a diversity of products and services or utilising different working practices such as working from home or not having a vehicle. Of key importance in this context was the legal form. The fact that ESEs established more than one legal form or changed legal structures enabled these businesses to overcoming certain constraints around funding or regulations. It also enabled them to work more effectively and find a structure that aligned with their motivations. This strength demonstrates an adaptability of ESEs to navigate around inhibiting external structures. Consequently, ESEs may be more adept at overcoming certain barriers than previously assumed.

Nonetheless, ESEs also have their limitations, an important factor being finance. Some ESEs faced financial barriers setting up and others had difficulty surviving or making a profit. This research demonstrated that ESEs do not need to make a profit to survive, however, it would help to strengthen the businesses financial security and enable them to reinvest into their missions. Importantly, the finance and stability of the company can have implications for whether some ESEs achieve their missions, it may cause some ESEs to experience mission drift, and some ESEs may ‘fall between the cracks’ in terms of what finance they can access. These findings suggest that while many ESEs were financially independent, there are exceptions of businesses where finance is somewhat of a barrier.

This study also identified that the legal structure may restrict ESEs performance. While the ESEs in this study were effective in overcoming structural barriers, other ESEs may not be so successful. Indeed, a key challenge for ESEs is deciding on a suitable structure that enables them to advance in the early days, without compromising their ability to access certain sources of finance for the long-term. Also, this study identified that certain legal forms such as the CIC

5 This study’s findings were based on a hypothetical setting using questionnaires.
model, were seen as more trusted and credible structures which enabled these companies to benefit from wider support and work opportunities. However, other legal structures such as CLS were not so fortunate. Though this was limited to a few participants, further research into how the legal form may restrict and enable different opportunities would be beneficial. In addition, the difficulties for some ESEs of ‘being in the middle’ and experiencing mission drift, would make it worthwhile to explore whether certain legal structures are more ‘successful’ than others. Are certain structures more effective as businesses than others, or at achieving environmental impact? Such questions remain to be resolved.

Finally, a central limitation related to government policy. Heavy regulations, bureaucracy and the lack of financial incentives were commonly mentioned issues that made it more difficult for ESEs to achieve their goals. Changes in the government policy approach to certain areas, such as renewable energy, meant that some ESEs were in vulnerable financial positions and had to rethink their strategies going forward. Different financial incentives such as tax breaks or removing VAT on recycled goods could provide the support some ESEs need to attract more business, be more competitive and achieve greater environmental impact. Our results suggest that there is substantial room for improvement for government policy to fully enable social enterprises to flourish.
7. Conclusions and implications

7.1. Concluding remarks

This study sought to find out how ESEs could contribute to creating more sustainable societies by looking at the characteristics, function and performance of these businesses and identifying their key strengths and limitations. First, environmental entrepreneurs have mixed motivations which they integrate into the running of their businesses. These motivations go beyond a desire to maximise profits to encompass a concern for the common good. This was evidenced by individuals desire to help people, to improve the environment or to strengthen the economy. As such, ESEs differ significantly in their values and approach to traditional firms. ESEs see the bigger picture by working locally to effect wider change and set a strong example to influence wider industry.

Secondly, ESEs maintain a balanced focus between their missions and operating as a business, to ensure they are financially sustainable. ESEs employ different strategies to enable them to survive and work effectively, this might be by adopting different practices to keep their costs low or by establishing new companies with different legal forms. In doing so, ESEs are able to overcome certain constraints and gain the benefits of two legal forms. This finding suggests that entrepreneurs can overcome institutional constraints and shift the dynamics in which they find themselves in. Such findings are key to understanding the institutional conditions that enable ESEs to survive while creating positive environmental outcomes. Nevertheless, ESEs are not without their challenges and some businesses may struggle to survive or have difficulty creating a surplus to reinvest in their missions. Others may ‘fall between the cracks’ or experience mission drift due to financial difficulties. Though the ESEs who experienced these issues were few in numbers, it is possible that these difficulties could be evidence of a broader trend.

Thirdly, ESEs are out performing traditional firms in their commitment to the environment and their communities. ESEs adopt various environmental and social practices whether that is ensuring they produce limited waste, being carbon neutral or support wider causes that are not for commercial gain. We also found that ESEs do face conflicting goals and have different decision-making practices to overcome such dilemmas. In contrast to other research, ESEs commercial and environmental aims are not always in conflict, implying that it is possible for
these businesses to create a surplus without impeding their other goals. Similarly, most ESEs balanced different goals and prioritised the environment when it was financially possible to do so. These results suggest that overall, ESEs are pragmatic about the decisions they make and do not put their financial stability at risk. These findings demonstrate that ESEs are a promising example of institutions that have the potential to advance economic, social and environmental goals. However, government policy will need to make great strides to provide these businesses with the supportive environment they need to fully flourish and shift society onto a more sustainable track.

7.2. Suggestions for further research

This study has contributed to understanding the strengths and limitations of ESEs, based on their characteristics, function and performance. Considering the findings, the researcher recommends several areas for further research that may be of interest to scholars working in this area. These suggestions have been discussed in section 6. and are summarised in brief below:

- What do ESEs financial positions look like? How much of ESEs income do they generate through trade vs other sources?
- How does generating a profit influence ESEs ability to survive and achieve their missions?
- Do ESEs experience mission drift and is this indicative of a broader trend?
- How might having more than one legal form impact on the financial opportunities available to entrepreneurs?
- How does the legal form in general restrict and enable different opportunities?
- Are more legal structures more ‘successful’ than others? Are certain structures more effective as businesses than others, or at achieving social or environmental impact?
- What are the conditions like for ESEs who have external investors?
8. Appendix

Interview guidelines

How is the ESE organised?

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1.</td>
<td>Can you tell me about the company and how it was started? (age group, educational background, work background?)</td>
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<tr>
<td>2.</td>
<td>What is your product? Do you trade it?</td>
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<td>3.</td>
<td>How has your product been received in the market? Did you create a new market? <em>(hit a trend or found a new niche)</em></td>
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<td>4.</td>
<td>What is the role of consumer/user demand?</td>
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<td>5.</td>
<td>How do you find an acceptable price for your product?</td>
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<td>6.</td>
<td>How big is the staff, paid vs. voluntary?</td>
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<tr>
<td>7.</td>
<td>How are you funded? (beginning and now)</td>
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<tr>
<td>8.</td>
<td>Have you received any financial or other types of support from somewhere? (human, financial etc.) Do you have external investors that require return on investment?</td>
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<td>9.</td>
<td>What legal form has the SE taken?</td>
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<td>10.</td>
<td>Why did you choose this form? Did you consider the CIC model?</td>
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<tr>
<td>11.</td>
<td>What are the benefits to being organized the way you are? What are the risks? (legitimacy, identity)</td>
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<tr>
<td>12.</td>
<td>Do you actively communicate your form/model? (marketing, investors, public)</td>
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<tr>
<td>13.</td>
<td>Has being a …. given you access to funding you otherwise couldn’t have gotten?</td>
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<tr>
<td>14.</td>
<td>How is the legal model supporting /hindering the realization of aims? (L) very supportive, somewhat supportive, not very, not at all</td>
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<td>15.</td>
<td>If you didn’t use this model, what would have been the alternative choice?</td>
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What is the business model? *(defined as conceptual framework for value creation, delivering something that is attractive to customers and earning money to ensure survival)*

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<tr>
<td>16.</td>
<td>Which environmental challenges are you trying to address?</td>
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<td>17.</td>
<td>What is your approach to solve this/these issues?</td>
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<td>18.</td>
<td>How have you integrated environmental aims into the structure and culture of the company?</td>
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<td>19.</td>
<td>Do you measure your impact? If so, how?</td>
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<td>20.</td>
<td>What are your barriers in working with environmental issues?</td>
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<tr>
<td>21.</td>
<td>Do you view yourself as different to a typical business? <em>What is a sustainable enterprise to you?</em></td>
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<td>22.</td>
<td>Are you challenging current ways of doing business within your sector?</td>
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<td>23.</td>
<td>What characterizes your competitors? Who are they?</td>
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<td>24.</td>
<td>What would need to change (societal, political) to make things easier for you / to be able to compete with non-sustainable competitors?</td>
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</table>
25. Are there activities or business opportunities that are avoided, because they are not considered responsible?
26. Are you responding to a community need or a market opportunity?
27. Are you more mission driven versus more market driven?
28. How important is profit to you? (L) Little importance 1-5 great importance
29. How do you balance social/environmental and commercial aims?
30. Have you experienced goal conflicts between profit making and society interest? (Explain. Examples.)
31. How are such conflicts addressed?
32. Do you perceive there to be a community interest/profit trade-off? (L) Not at all, Very little, Somewhat, To a great extent
33. How would you describe the general attitude towards profit maximization in your sector?
34. Have you experienced a situation where you wanted to achieve more (socially, ecologically economic) but couldn’t? Why?
35. What are your thoughts on upscaling and your status 5 years from now?
36. Do you know other ESE’s that I could interview?

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<th>Question</th>
<th>Possible Responses</th>
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