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Financing social enterprise in the United Kingdom: Responding to new challenges in competitive markets

Abstract

Social entrepreneurship activities continue to make a significant contribution to the development of the United Kingdom's (UK) economy and remain at the core of the government's strategies for ameliorating socio-economic deprivation across the country. Despite the growth of this type of business activity, a key area that requires further analysis is how social enterprises respond to the funding challenges posed by globalisation, declining state support and increased demands for social welfare interventions. These challenges also come at a time when the UK government is encouraging communities to explore innovative ways of tackling socio-economic deprivation, through innovative and sustainable business practices. Drawing on a qualitative case study approach of social enterprises in South Yorkshire UK, this research contributes to extant literature by scrutinising the operations of social entrepreneurs in resource-constrained environments. By employing components of Kirzner's (1973) theory of entrepreneurship, the findings of this investigation highlight how opportunity spotting and innovation in financing strategies have enabled social entrepreneurs in South Yorkshire to widen their organisations' sources of financial resourcing. This study is of particular benefit to policy makers and researchers in social enterprise.

Keywords: Equity investments, Funding, Innovation, Legal structures, Social enterprise, Social entrepreneur, South Yorkshire

Financing social enterprise in the United Kingdom: Responding to new challenges in competitive markets

Introduction

Social enterprises are generally defined as businesses that seek to address socio-economic deprivation through enterprise, whilst improving the lives of marginalised persons. (Comini et al., 2012; Haugh, 2005; Nega and Schneider, 2014; Smith et al, 2012). Despite an upsurge of academic interest over the past decade, there is a dearth of empirical research on how social entrepreneurs are financing the operations of their organisations in an increasingly global and competitive economic environment (Mswaka and Aluko, 2015; Wilburn and Wilburn, 2014). Traditionally, social enterprises have been funded through grants, donations and other forms of philanthropic support. They have largely been driven by legal structures such as Company Limited by Guarantee (CLG) that allow them to access grant funding and other forms of philanthropic support in order to reinforce their social objectives (Brown ,2007). However, contemporary discourses suggest that some social entrepreneurs are exploring non-traditional and different ways of strengthening their value extraction capacity, by considering loan finance equity investments and related legal structures (Bellavitis et al., 2017; Mswaka et al., 2016).

Equity investments as a form of financing are not common in the non-profit sector and are normally associated with for-profit organisations seeking to raise capital through investments in exchange for dividend - bearing shares. Scholars such as Brown (2007), Rizzi et al (2018) and Mswaka and Aluko (2014) argue that this shift in practice is due to the changing economic climate, the declining statutory grant funding programmes in the UK, and the pressures on social entrepreneurs to deliver more with less (Mason, 2012). Furthermore, dwindling public and philanthropic support has further exposed weaknesses in the traditional financial resourcing model used by social enterprises, thereby forcing social entrepreneurs to explore new and innovative ways of achieving financial sustainability (Mosek et al., 2007) and operational longevity of their organisations. This dimension is exemplified by the introduction of a new legal structure for social enterprise in the UK called the Community Interest Company (CIC). This legal vehicle has variants that allow social enterprises to issue equity to both private and philanthropic investors in return for financial investments (DIS, 2013)**.** Given these developments, the key question this raises is, how are social entrepreneurs responding to the funding challenges and what actions are they taking to ensure that they widen their sources of revenue in order to achieve their social outcomes?

By answering these questions, this paper seeks to contribute to this debate by providing a case study of how social entrepreneurs in South Yorkshire, UK are developing innovative responses to funding challenges in order to achieve financial sustainability and deliver more value. The South Yorkshire region is the focus of this paper due to high levels of deprivation following the closure of mines, which were the mainstay of the region's economy. The region was thus one of the first in the UK to receive European Union funding aimed at stimulating economic growth through social enterprise and other economic regeneration activities (Bache and Chapman, 2008). The cessation of this structural funding for social enterprises in the region in 2008 left a majority of these organisations undercapitalised and unable to continue with their activities. We draw upon components of Kirzner's (1973) theory of entrepreneurship to provide the necessary scaffolding to the arguments and debates in this paper. We argue that this approach's emphasis on identifying and exploiting emerging opportunities that other players in the market tend to ignore, assists us in understanding further how social entrepreneurs in South Yorkshire are financing their organisations in an innovative way.

It is also worth noting that the UK is considered as the leading force in social enterprise across Europe (Nicholls, 2010). The country has a vibrant social enterprise sector and current evidence suggests that there are about 100 000 social enterprises in the country employing over two million people and contributing £60 billion to the economy (Social Enterprise UK, 2018) .There are various resources and publications that highlight the state of entrepreneurship including social entrepreneurship development in the UK. Please see Dana, (2018), Steinerowski and Steinerowska-Streb (2012) and Martin and Thompson (2010) . There is also an argument that among entrepreneurship activities in the UK, social enterprises are currently demonstrating consistent growth, with about 58% anticipating an increase in turnover in the next year (Social Enterprise UK, 2018).

The structure of the paper is as follows: We start by scrutinising Kirzner's (1973) theory and then apply it to social enterprise. The methodology section follows, along with a detailed discussion and analysis of the emerging results. The last section offers concluding remarks and policy implications.

Literature review

Theoretical framework.

In this study we adopt Kirzner's (1973) theory of entrepreneurship as an analytical framework to provide further insight into how social entrepreneurs (those leading social enterprises) are addressing financing challenges that their organisations are facing. Kirznerian entrepreneurs are defined as individuals who are alert to business opportunities, thus allowing them to expeditiously develop appropriate vehicles or infrastructure to exploit them (Kirzner, 1973; Shane and Venkataraman, 2000). This definition is normally regarded as complementary to the Schumpeterian (1943) view of the entrepreneur, which characterises an entrepreneur as one who forces through disruptive innovations, by aggressively destroying the pre-existing state of market equilibrium through effective leadership and determination (Ardichvili et al., 2000; Schumpeter, 1943). Kirzner (1973) further argues that opportunities are always present in the extent economic system but can only be created, discovered and exploited by independently initiated actions of entrepreneurs that are alert. He stresses that such entrepreneurs benefit from what he terms as widespread ignorance of these opportunities by other individuals or participants in the market environment. Rummelt (1982) and Ricketts (1992) support this view by arguing that that there is a relationship between profitability and alertness, in that the former is a return to the latter. Therefore the emphasis of the Kirzerian approach to entrepreneurship is on the role of the entrepreneur in discovering opportunities in the market in order to deliver value to the stakeholders of their organisations (Kirzner, 1973). While some form of prior knowledge is considered as an antecedent to business opportunities, Kirzner (1999) further argues that opportunities are results of deliberate equilibrative actions by entrepreneurs. Such actions include the introduction of new products, or more efficient ways of production (Kirzner, 1999). This view is contrary to Hayek's (1945) argument that entrepreneurial success is a result of idiosyncratic knowledge, namely, in-depth knowledge of contextual information. Therefore Kirznerians place more emphasis on the causal functionality of the entrepreneurship process, not necessarily the instrumentality of the individual (Kirzner, 1999; Shockley and Frank, 2011) and assert that the discovery of and ability to exploit commercial opportunities to gain competitive advantage is largely predicated by alertness and ability to understand market trends.

Kirzner's theory of entrepreneurship and social enterprise

In an entrepreneurship context, researchers generally agree that the scrutiny of entrepreneurial alertness and opportunity identification is limited (Shockley and Frank, 2011; Yu, 2001). Further, the current theorisation of the Kirznerian approach to entrepreneurship in contemporary literature tends to focus more on commercial entrepreneurs and less on the practices of social entrepreneurs. Given this underutilisation in the field of entrepreneurship (Shockley and Frank, 2011) this study identifies and distils components of the Kirznerian theory of entrepreneurship that are critical in providing the necessary scaffolding to the key arguments in this study. Therefore, we draw upon alertness, creation and exploitation of opportunities that are widely ignored by other players in the market (Kirzner, 1973) as the key constructs of Kirzner's approach, to provide a framework for gaining further insight into strategies that social entrepreneurs are employing to address the funding challenges they are facing. These constructs are particularly important in our understanding of the development and sustainability of social enterprise in the UK, given the pressures these organisations are facing to identify and exploit new approaches to deliver more value in competitive markets. Thus, consistent with the Kirznerian view of the entrepreneur, our investigation regards social entrepreneurs as individuals who are inspired and have the capability to create, spot and exploit opportunities to enable their organisations to achieve both their economic and social objectives (Dimov, 2010; Kirzner,2018).

Alertness and Opportunity Identification

The notions of alertness, creation and exploitation of opportunities in this study are analysed in the first instance by focusing on the way contemporary social enterprises are funded and the challenges social entrepreneurs face in sustaining their operations in environments characterised by intense competition for resources (Lehner and Nicholls, 2014).This allows us to examine in greater detail how those leading social enterprises are responding to such environmentally induced constraints. Social enterprises have traditionally been funded by a mixture of grants and trading income (Grenier, 2002; Teasdale, 2012). However, there is consensus among researchers that the overreliance on grant funding tends to trap organisations in a perpetual supplicant model, with little prospect of developing into sustainable businesses (Dart 2018). Despite grant funding having the advantage of being non-repayable, the effects of changes in the broader UK macro environment, particularly increased competition for resources, along with the dwindling public and philanthropic support, have made it imperative for social entrepreneurs to explore other forms of funding in addition to grant funding (Lettice and Parekh, 2010; Williams and Nadin ,2014).

The operational constraints associated with competition for grant funding in the UK provide further evidence of how the ideas of alertness, creation and exploitation of opportunities are analysed in this investigation. Current evidence suggests that the value of loans to the social enterprise sector has been steadily increasing over the past decade (Brown, 2007; Teasdale, 2012). That said, it is also widely accepted, though, that the ability to access loan finance for any business, including social enterprise, is predicated upon a robust business model (Wilburn and Wilburn, 2014) and that not all social entrepreneurs are willing to use loan capital for fear of putting their assets and organisations at risk should they default on the payments (Doherty et al., 2009; Siqueira et al., 2018). However, some social entrepreneurs have seized this opportunity, largely ignored by others in the market, to strengthen their organisations' value creation capability and plug gaps in their funding shortfalls. For example, by widening their thematic activities and demonstrating to banks and other funders that they have solid business models and are becoming more risk averse, some social entrepreneurs are tapping into this emerging opportunity.

Equity Investments and Social Enterprises

The continuing evolution of the social enterprise funding environment in the UK allows us to further explore alertness and exploitation of opportunities in this study. Some social entrepreneurs in the UK are now considering equity investments, despite this being a new and untried way of raising capital in the social enterprise sector (Bull and Ridley-Duff, 2008). For example, the launch of the Big Venture Challenge Fund and Social Enterprise Investment Fund initiatives , both focusing on scaling up social enterprise through equity investments (Salman,2011) exemplify this new trajectory in funding non-profit organisations in the country. These changes in the funding environment allow us to further explore how some social entrepreneurs have exploited such complex financing opportunities in the extant economic environment((Kirzner, 1973, Ardichvili et al.,2000) to achieve their objectives.

Equity investments refer to investments by individuals or other firms, usually in the form of shares. This implies ceding part of the ownership and control of the organisation to investors and benefiting from profits in the form of dividends (Brown, 2007). This type of financial reward refers to a proportion of the earnings of a firm that is returned to shareholders and investors according to the shares they hold in an organisation (Brown, 2006). Raising financial resources through shares is a new phenomenon in the social enterprise sector and signifies the willingness of social entrepreneurs to reorganise the internal systems of their organisations (Lettice and Parekh, 2010) in order to exploit new ways of extracting additional resources to deliver more

Further, the emergence of equity investment opportunities in the social enterprise sector has also simultaneously resulted in the introduction of previously unknown for-profit legal structures such as the company limited by shares (CLS) as legal vehicles for the purposes of raising additional capital in the market (Low, 2006). The most common legal structure in the sector has been the company limited by guarantee (CLG), which allows social entrepreneurs to access grant funding while at the same time protecting them from unlimited liability (Lyon and Humbert, 2012). A legal structure or constitution is defined as an operating framework for businesses and encompasses rules and regulations that govern the way they operate (Snaith, 2007). The adoption of the CLS legal vehicles has provided social enterprises with an infrastructure to diversify their income bases through innovative financing strategies and in so doing maximise the extraction and delivery of value (Roininen and Ylinenpaa, 2009). In so doing, the social entrepreneurs are also acting as innovators and carriers of knowledge that diffuses practice and new ways of delivering value to their constituents or stakeholders (Audretsch and Keilbach, 2004). An example of this is the way that some social enterprise funders in the UK are also considering investing into social enterprises through shares instead of grants. This investment route provides them with an opportunity to grow their own funds through capital gain (Brown, 2007; Mswaka and Aluko, 2015). That said, we acknowledge that some social enterprise funders in the UK are not familiar with share capital and equity investments and are likely to be reluctant to invest in them. Researchers such as Spear (2001) and Bugg-Levine et al., (2012) argue that in its basic form the CLS legal structure does not appear to reinforce and uphold the ethos of social enterprise, given its focus on direct ownership and distribution of profits.

Financing Opportunities and Financial literacy

Despite the benefits offered by equity investments, we also argue that in order to identify and exploit emerging financing opportunities, financial literacy on the part of social entrepreneurs is vital, in assisting them to understand the financial world better. Lucey et al., (2015, p.1) define financial literacy as ‘the ability to apply and understand the processes and tools associated with personal finances’. Researchers and practitioners generally agree that the increased competition and innovations in the market place have resulted in a sophisticated financial products environment that requires enhanced financial capability skills in order to exploit or make sense of them (Al-Tamimi and Kalli, 2009; Braunstein and Welch,2002) . Johnson and Sherraden (2007) argue therefore, that while attaining financial literacy is important, that alone is insufficient, as specialist knowledge and competences are required to exploit or maximise emerging opportunities in the financial world. They refer to these as financial capability skills, which include ability to plan ahead, assess, and select relevant financial products and keep track of developments in the financial world. Social entrepreneurs are thus confronted with complex financial instruments and products such as equity investments, and current evidence suggests that not everyone in the social enterprise sector is familiar with them (Brown, 2007). Hence we acknowledge that financial education, literacy and requisite financial capabilities are vital in assisting them to assess options and make investment decisions (Al-Tamimi and Kalli, 2009; Lusardi, 2008).

In this study, we also acknowledge the limitations of Kirzner's theory of entrepreneurship highlighted and discussed by several researchers and academics. For example White (1976) criticises the Kirznerian approach to entrepreneurship for not taking cognisance of imagination and failing to acknowledge that business opportunities can even emerge from disequilibriums in the market. Burczak (2002) further disputes Kirzner's argument that everyone in a market economy has an equal opportunity to be an entrepreneur. That said, we argue that this approach allows us to analyse resourcefulness, reactiveness and innovative practices of social enterprises as they seek to address funding challenges imposed upon them by the environment. Secondly, we argue that alertness to opportunities is also associated with improvisation and adaptation in order to tackle uncertainty. Thirdly we stress that financial literacy and capability complements Kirzner's (1973) entrepreneurship theory in that the discovery and exploitation of opportunities in the financial world is greatly enhanced by robust financial literacy skills of those leading the social enterprises.

Methodology

In order to gain a deeper understanding of the legal structures that support financial aid for social enterprises in the UK, a multiple in-depth case study approach, involving qualitative face to face interviews was undertaken (Eisenhardt, 1989; Tellis, 1997; Yin, 2014). There were two reasons why this approach was considered to be the most ideal for this investigation; first, the use of case studies allowed us to understand better the environment in which social entrepreneurs operate and are embedded (Dana and Dana, 2005). Second we wanted to highlight the diversity in types and thematic activities of social enterprises and how they resource their operations. In addition, this method also allowed the researchers to explore new areas and themes where very little theory was available to explain a phenomenon (Kohn, 1997). We utilised a semi-structured interview guide to extract relevant information from key informants identified in the cases. As opposed to the traditional hypothetico-deductive approach associated with quantitative methods, we were able to obtain data in the form of direct quotations about paticipants' experiences in their respective organisations (Dana and Dana,2005) Given that case study selection needs to be undertaken in a way that maximises learning, the basis for selecting the cases underpinning this investigation was the need to illustrate the thematic diversity and representativeness of the informants (Silverman, 2017). The objective, therefore, was to select cases operating in different thematic areas and utilising different methods and legal frameworks to raise finance. The latter is particularly important as it influences the type of financial resources that a social enterprise can access (Mswaka and Aluko; 2014). The three cases were thus purposely selected (Crowe et al., 2011) to illustrate the financial challenges that social enterprises face, as well as the diversity in income generation strategies that these organisations employ. In this regard, the first case that was selected generated its income primarily through trading and grant funding, the latter constituting the biggest component of the funding mix. This case was designated as The Meeting Place and had a company limited by guarantee (CLG) legal structure. The second case, designated as The Community Resource Centre, was funded through a mixture of trading, grant and loan finance. Similarly, this case was constituted as a CLG .The third case The Contractor, was funded through trading and equity investments and was driven by a company limited by shares (CLS) legal structure. In this study, the social enterprises operating in South Yorkshire comprised the accessible population. While there was no definitive number of social enterprises in the region, we found that an informal mapping exercise had been undertaken by a social enterprises support organisation based in Sheffield. This suggested that there were about 400 organisations (SCEDU, 2005) describing themselves as social enterprises operating across the region. We also utilised our social capital and focal persons in key social enterprise support organisations across the region to access relevant data bases from which we selected the cases under scrutiny.

It was important to ensure that the informants that were selected for the study were knowledgeable about the organisation's operations and its growth path. This was crucial in ensuring that empirical data and insights derived from the cases can achieve what Yin (2003) defined as analytical generalisation. In this regard three informants each from the Meeting Place, the Contractor and the Community Resource Centre were interviewed. These included respective main entrepreneurs leading the social enterprise activities as well as the Chief Executive Officers (CEOs) and members of the board of directors. Each interview lasted four hours and focused on specific issues relating to the cases' business models, legal structure and social goals. We utilised a data saturation approach in extracting informants from respondents during the interviews. Data saturation is a criterion for discontinuing interviews when nothing further appears to come from further questioning of informants, i.e. informational redundancy (Saunders et al.2018; Fusch and Ness, 2015.) .This approach enabled us to ascertain if there were no new themes that could emanate from the data. In addition, this enabled us to achieve a holistic inductive approach, with adequate flexibility to understand emerging issues better (Dana and Dana, 2005). The cases under scrutiny were given fictitious identities and are shown in Table 1 below.

Table 1: Cases under investigation

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Insert table 1 here

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The information from the key informant interviews was recorded, transcribed and analysed manually via an inductive thematic coding process (Strauss and Corbin, 2008). Specific codes were generated based on ideas derived from relevant literature, whilst others emerged from the ideas shared by participants about their professional practice. In the first instance, the process involved transcribing the data that had been collected from informants and then critically analysing the informants' responses to specific questions. This entailed revisiting the research question underpinning the study, then highlighting any words, sentences, illuminative quotations or phrases that related to a specific theme, such as 'legal structure' or ‘financing opportunities’. Codes were then generated and assigned to key words and phrases relevant to the research question until no further themes could be identified. For example, ‘type of legal structure’ could prompt answers such as company limited by guarantee, or company limited by shares. These were assigned the codes CLG and CLS respectively. Comparisons were then made to ascertain if there was a similar pattern across all three case studies that could be generalised, a method recommended by Kohn (1997). This method therefore made it possible to undertake cross case analysis by ‘surfacing common themes and directional processes’ (Miles and Huberman, 1994 p.69).

Results and Observations

Given that the key question underpinning this study focuses on how social entrepreneurs are responding to the funding challenges and what actions they are taking to address this, the results section is structured as follows: the first part focuses on the means of financing and for all the cases under scrutiny that are shown in table 1. This is followed by the analysis of means of financing and the legal structure for all the respondents .Specifically we highlight the reasons why social entrepreneurs selected specific legal vehicles to drive their social enterprises’ activities.

From the case study analysis, it can be inferred that social enterprises in South Yorkshire are funded through grant funding, a combination of grant and loans and equity investments.

Financing of social enterprise in South Yorkshire

Trading and grant financing structure

Grant funding in particular continues to be one of the most common sources of finance for social enterprises (Haugh, 2005). This type of financing has the advantage of not being re-payable, hence its popularity in the social enterprise sector. This dimension comes out clearly in the analysis of the Meeting Place, whose financial records show that 60 % of its income constitutes grant funding. This funding came from local authorities, regional social enterprise development funders and donations. The social entrepreneurs running this organisation ,shown in table 1 ,appeared not to have considered other financial sources such as loan or equity financial packages. This position is reflective of most social enterprises, since most operate in areas of market failure where margins are low (Chell et al., 2010). Further scrutiny of this social enterprise's financial accounts shows very negligible trading income coming from the delivery of services such as childcare and training, under contract from relevant local authorities. This only constituted 30% of the annual revenue. This was confirmed by the Chief Executive Officer and main entrepreneur from the Meeting Place, who said,

'*We are funded largely through grants ...we don't really sell a product but our generated income is through local authority contracts.'*

When asked to explain why the organisation relies on grant funding only, the CEO remarked,

'*We are a community organisation and we are not really interested in loan finance…as you know we don't want to put our assets at risk. The community won't like that'*.

This aversion to risk can be viewed as an antithesis to enterprise but arguably consistent with the Kirznerian approach to entrepreneurship, given that this social enterprise is constantly seeking grant funding opportunities to exploit in order to achieve financial sustainability and operational efficiency. In this instance, grant funding represents a crucial part of the Meeting Place's financing strategy and covers core costs such as human and financial resources. The response from the informant is largely consistent with the general observations associated with social enterprises that are predominantly funded through grants. Although loan financing opportunities remain an option, the organisation faced two key challenges; first, its financial statements revealed a relatively weak balance sheet that was unlikely to satisfy the due diligence processes of loan providers. Second, there was an inherent fear about putting the organisation's assets at risk should they default on loan payments. That said, it is important to acknowledge that grant funding allowed the Meeting Place to perform and achieve its social outcomes, which underpin its mission. This was confirmed by the Chair of the Board of the Meeting Place, who remarked,

'You have to understand that we are providing a very important service here to the community. The private sector is not really interested in what we are doing'

Trading, grant and loan financing structure

The scrutiny of the Community Resource Centre shows that some social enterprises finance their operations through a combination of trading, grants and loans. The scrutiny of the financial accounts of this case shows that the trading component constituted 50% of the total income, while grant funding and loan finance constituted 20% and 30% respectively. The consideration of loan finance is particularly interesting since, traditionally, social enterprises have tended to avoid this financing option (Etchart and Davis, 2003). This development shows that, in addition to grant funding, some social entrepreneurs are embracing non-traditional sources of finance often ignored by contemporaries in the market. This was illustrated further by a comment from the main entrepreneur leading the Community Resource Centre, who remarked,

'*Although we rely on grant funding and trading to cover some of our core costs, we need additional finance from other sources to support our growth plans ...and so we went for a bank loan*.

This social enterprise successfully secured loan finance from a local cooperative bank, so that it could finance its growth plans. With regard to this, the CEO of the social enterprise remarked,

'We *have ambitious plans to develop our 'home services' provision and once we realised we could access loan finance, we went for it'*

When the business plan and financial statements of this social enterprise were scrutinised, the documents revealed a robust business model and a positive balance sheet, which arguably enabled this social enterprise to successfully acquire loan finance. This was reflected by its Capital and Reserves balance calculated by TA (Total Assets) £98,365 –TA (Total Assets) £52,125 = £42240. In addition, the Community Resource Centre's memorandum and articles of association (clause 39) allowed the organisation to seek loan finance to support the organisation's enterprising activities, a financing option that most social enterprises tend to avoid:

'The organisation can borrow money and to secure by mortgage, charge or lien upon the whole or any part of the Company's undertaking and property (whether present or future), including its uncalled capital, the discharge *by the Company or any other person of any obligation or liability.'*

The above clause shows that the organisation is not restricted from securing financial resources from different sources, or from making its assets available as collateral against external borrowings. On this point, one of the board members of the Community Resource Centre confirmed,

> '*They [bank officials] were happy with the way we do business and manage our finances…they could see potential for growth.'*

When asked what the bank specifically requested them to provide in support of the loan application, the respondent remarked,

> '*Well I can't tell you everything but they clearly required some form of collateral….e.g. the assets that we have…well we have acquired a number of these over the years and of course we have cash reserves as well.'*

Overall, the responses suggest that social enterprises , even those that are predominantly funded through grants ,like the Community Resource Centre, are becoming risk averse and loan finance is now being considered as a potential source of additional finance to augment their budgets (Di Domenico et al., 2010). The consideration of other funding opportunities that are not normally associated with the social enterprise sector is consistent with the Kirznerian approach to entrepreneurship. This is related to particular alertness to opportunities that other participants in the market are either ignorant of or unable to exploit (Kirzner, 1973; Yu, 2001). Further, this outcome shows that in order to exploit loan financing opportunities social enterprises, like any businesses, have to present robust and bankable projects to financial institutions. However, while we are not suggesting that all social enterprises that rely on a combination of grant funding and loan finance are sustainable, we are arguing that alertness and ability to exploit other seemingly difficult to access sources of finance are crucial in ensuring financial sustainability and longevity of operations.

Trading and equity investments

The analysis in the case of the Contractor provides evidence that some social entrepreneurs are considering equity investments to grow and sustain the operations of their enterprises. This is a significant development in the social enterprise sector, given the competitiveness associated with securing additional finance in the market (Brown, 2007). The scrutiny of the Contractor's financial statements showed that in the first year of operation, the organisation's income consisted of 45% equity investments and 55% trading income. The consideration of equity finance in this instance is a bold and proactive move as this reflects the desire of these enterprises to be innovative and try new ideas, a key construct of Kirzner's theory of entrepreneurship. This dimension was highlighted by the CEO and lead entrepreneur of the Contractor, who said,

'We were hesitant at first in going for this type of finance as we were not really sure about what type of investors were going to be interested in what we are doing here...but we knew that this is the way to go in the current environment…we realised that there was just too much competition for grant funding.'

Further analysis of the Contractor's financial statements revealed that the organisation's start-up capital was provided by those running the organisation, even though the organisation was eligible to apply for grant funding. On this dimension, one of the members of the board of directors of the social enterprise said,

'We all know that the process of applying for grant finding can be quite protracted…we wanted to quickly start out operations and available of people wanting to invest in us through shares was welcome.'

Another informant from this organisation commented further on this statement by saying,

'We are a social enterprise but we wanted a vehicle that could allow investors out there to give us their money...this structure just looked right for us from the start, though we didn't understand it at first'.

In order to avoid compromising the social ethos of the organisation, the organisation had an asset lock achieved through the appropriate share allocation and clauses in its memorandum and articles of association. A respondent from the Contractor explained this further by saying,

'What we don't want is to compromise our social ethos…we have very clear social objectives and we want to maintain that. We have some representatives from social enterprises who sit on out board and basically help us with that job.'

The above response shows that, consistent with the Kirznerian approach to entrepreneurship, alertness and ability to exploit emerging equity funding opportunities have enabled the entrepreneurs behind the organisation to access investment capital to support and grow their business operations. This has been achieved through structural transformation (Yu, 1999) of the organisation by adopting innovative legal forms to take advantage of such funding opportunities. Most crucially, strong financial literacy played a part in allowing the entrepreneurs behind the organisation to identify and decipher the meaning and implications of various equity financing options in the market for their organisations.

The relationship between means of financing and legal structure

Having looked at the means of financing for social enterprises in South Yorkshire, we further sought to analyse the relationship between the means of financing and type of legal structure of social enterprises in the region. This provides further insight into the reasons why the social entrepreneurs running these organisations adopted specific types of legal structure in response to environmental funding constraints (Di Domenico et al., 2010).

Company limited by Guarantee (CLG) and financing of social enterprise

The case study analysis shows that both the Meeting Place and the Community Resource Centre are driven by a company limited by guarantee (CLG) legal structure, which is the most common legal framework in the social enterprise sector. This vehicle allows organisations to access grants and other forms of philanthropic financial support (Mswaka et al, 2016). In addition, this type of legal structure is most favoured by grant funders in the sector (Lyon & Humbert, 2012). The reason for this is that a CLG permits social ownership of the firm and its resources, allowing those on the board of directors to run the organisation on behalf of the members of the entity. Evidence of social ownership is an important criterion in the decision and due diligence process undertaken by social enterprise funders. A board member from the Meeting Place reinforced this finding by saying,

‘Even *though we have a good business here and we are doing very well, we can’t do without grant funding….and we know that funders want to see a CLG, so we went for it so that we can access the funding.’*

When the lead entrepreneur and CEO of the Community Resource Centre was asked about the legal structure of his organisation and why they selected it, he said,

'As I said before, we have a lot of core costs that we need to cover so that we can provide better services to the community. This means that although we can access loan funding, we do need grant funding because we don't need to pay this back. We are advised to adopt the CLG as this is what we believe funders are comfortable with.'

This response is particularly interesting given that, even though the Community Resource Centre has a strong business model which enables the organisation to generate income from trading activities, grant funding is still critical in cross - subsidising its activities. Therefore selection of the CLG arguably is also a means to the ends. This also highlights some form of alertness to opportunities (Kirzner, 1973) in order to access 'free 'financial support in the form of grants to support the organisation's strategic growth plans.

Equity investments and financing of social enterprise

The analysis of the Contractor shows that the social enterprise is financed through trading and equity investments as it has a share capital legal structure that it uses to drive forward its socio-economic agenda. This result is a significant development, given that equity investments have not been traditionally associated with the social enterprise sector (Spear et al., (2007). The decision by the Contractor to consider equity investments and a CLS legal structure resonates with Kirzner's (1973) argument that alertness to emerging sources of finance, which other organisations might not necessarily be aware of, can result in profitable operations. A good illustration of this is provided by the response from the lead entrepreneur from the Contractor, who said,

'I *come from the business sector and really wanted a legal structure that could help me to quickly raise the capital I required to establish the social enterprise.'*

When asked about the amount of start-up capital required to kick-start the operations of the social enterprise, the respondent said,

'I needed at least £100k to address capital start-up costs and I wasn't going to raise that through grant funding alone.....and it was going to take time.'

Records show that this social enterprise was able to raise over £80,000 from both public and private investors through equity investments via preferential share allocation to develop the social enterprise and cover initial business outlay costs. Another significant finding is that a Yorkshire - based social enterprise funder expressed a commitment, not only to sit on the board of the Contractor, but also to purchase dividend bearing shares. By investing in the Contractor through equity, rather than grant financial packages, this funder would be able to create a more sustainable revolving fund that would enable it to invest in other projects.

Implications of sources of financing and legal structure

The above findings highlight three key issues that are central to the arguments in this paper. First, there is no doubt that lack of access to finance is a constant threat to the viability of social enterprises in South Yorkshire, which has been exacerbated by the decline in traditional sources of grant funding (Haugh,2005; Reilly,2016). Consequently social entrepreneurs running these organisations need to be more aware of changes in the funding landscape and be prepared to take risks in order to mobilise the required financial resources. Second, even for organisations that are reliant on grant funding, such as the Meeting Place, ability to spot funding opportunities and compete with other applicants is vital for success, as access to grant finding has become more competitive and demanding. Third , the willingness to adapt to the changing funding environment by considering new organisational forms and infrastructure (Bugg-Levinne et al, 2012) such as share capital legal structures, has allowed entrepreneurs from organisations such as the Contractor to widen their sources of finance through equity investments. Even though this is a very small sample (7%) it nonetheless shows that being alert to opportunities that other players in the market are unaware of or unable to exploit is a pre requisite for achieving profitability in competitive markets (Bellavitis et al., 2017; Kirzner, 1973). The share capital legal structure being discussed here was developed in Sheffield. It is called New Company (NEWCO) and it complements existing share capital based legal structures such as the Community Interest Company (CIC). This has been accepted by regional funders and support organisations in Yorkshire and beyond, as a suitable vehicle to invest in social enterprises.

Discussion

Theoretical Implications

Rooting this investigation in Kirzner's (1973) theory of entrepreneurship has allowed us to extend the theory further to social entrepreneurship, given its underutilisation in this field

(Shockley and Frank, 2011; Yu, 2001). Contemporary literature largely focuses on opportunity spotting and exploitation within a commercial entrepreneurship perspective and says very little about how these can be applied to social entrepreneurship. Therefore, in this investigation we have sought to review and adapt Kirzner's (1973) theorisation of entrepreneurship and utilised it as a framework to analyse social entrepreneurship. In particular, we have stretched the components of the theory, namely, alertness and opportunity identification, to provide insight into the operations of social enterprises in South Yorkshire and how those leading them are addressing the funding challenges, they are facing. The study shows that due to the complexity of the economic environment and the continuing need to address social needs, social entrepreneurs in South Yorkshire are being forced to 'think outside the box' and consider other new and less tried sources of finance and business logics for survival (Brown, 2007 ;Lehner and Nicholls.2014). Reliance on limited trading activities and grant funding alone is no longer sufficient to ensure long term survival. In addition, the increasing role of the market is now having a profound effect on the ways social entrepreneurs finance their operations and deliver value (Di Domenico et al, 2010).This brings the need to be vigilant in the market and to be willing to take risks, including undertaking necessary organisational transformations in order to maintain viability and develop capacity. Consistent with Kirzner's (1973) argument, this study has shown that social entrepreneurs in South Yorkshire are adapting to the changes in the funding environment across the region by developing new organisational forms to exploit new and emerging equity funding as well as loan finance to augment their budgets (Arradon and Wyler, 2008; De Bruin and Flint- Hartle, 2011). The discovery and exploitation of such emerging opportunities (Kirzner,1973; Ricketts and Rirzner,1992) can thus arguably be regarded as 'the essence of the entrepreneurial function' itself (Sautet ,2018 p.1), particularly in view of the fact that social entrepreneurs do not exist in vacuum and require suitable tools and mechanisms to compete for resources in the market (Bellavitis et al,2017 ;Heaney, 2010).

Practical implications

While consideration of loan finance indicates a willingness to take risk on the part of social entrepreneurs, the emergence of share capital legal structures and equity investments and more focus on business logic is evidence of a decisive shift in the financial strategies of the organisations they lead. This is a significant development in that this demonstrates that social entrepreneurs are now taking a more proactive role by utilising creative market oriented approaches to solving socio-economic problems and becoming effective agents of social change (Seelos and Mair, 2005; Zeyen et al., 2013). Rather than continue to rely on grant funding, to which access is becoming increasingly competitive, social enterprises are now deliberately widening the funding base through loans and equity investments, as shown by the evidence from the Contractor and the Community Resource Centre’s activities. This has largely been due to the ability of those leading social enterprises to identify and exploit funding opportunities mediated by a clear commitment to address social objectives through enterprise (Arena et al, 2018). However, we acknowledge that this is dependent to a large extent on financial literacy, since this has an impact on their decision making processes (Lusardi, 2008). Financial education for entrepreneurs is thus vital in equipping them with skills and capabilities to assess and exploit relevant financial products (Johnson and Sherraden, 2007)

While grant funding continues to be a key component of social enterprises’ funding mix, we acknowledge that this is not a sustainable useful means of solving the complex social problems that contemporary communities face in the long term. Therefore, reconfiguration of the ways social entrepreneurs operate, where appropriate, may allow them to achieve the financial sustainability of their organisations (Neck et al, 2017). For example, we can see that the ability of the entrepreneurs running the Contractor to make relevant adjustments to the way the organisation was configured and adopt a CLS legal structure provided the organisation with an additional opportunity to raise much - needed capital from both public and private investors through equity investments. This was clearly an intentional and deliberate growth strategy (Errunza, 2001; Haymore, 2011; Tykkylainen et al., 2016), whose impetus emerged from the need to take advantage of such opportunities.

However, few would disagree that the concept of equity investments in social enterprise in the UK is problematic, as the market for selling the shares is not always available. In its basic form the share capital legal structure does not seem a likely model for social entrepreneurship because of its ownership structure and how the profits are distributed. Current evidence also supports this, as there has been a low take up of the CIC share capital version (Mswaka and Aluko, 2014; Sunley and Pinch, 2012). It is also equally true that the majority of social entrepreneurs’ organisations are unlikely to generate sufficient returns to attract private equity investors (Barker, 2005). However, while the ability of social enterprises to attract private capital is debatable, this type of financing is now beginning to attract the attention of both private and public investors in the UK, as shown in this paper (Community Shares 2017).

Concluding Remarks

Just as commercial entrepreneurs require financial investments to grow and expand their operations, so do social entrepreneurs. Therefore there is need to be alert to opportunities for funding and to consider suitable instruments and infrastructure to exploit them (Arena et al, 2018), given the current changes in the funding environment for social entrepreneurs highlighted in this study. Our findings show that the pervasiveness of social problems cannot be adequately addressed solely by philanthropy and state funding, so innovation in financing strategies becomes fundamental to the sustainable development of social enterprises. The key empirical contribution of this study lies in the insights regarding the actions that social entrepreneurs in the South Yorkshire region are taking to address financing challenges in increasingly competitive environment. From a theoretical perspective, the application of the Kirznerian approach to entrepreneurship in this study has highlighted how alertness and innovativeness, particularly in the form of legal frameworks and consideration of equity investments, have transformed the way social enterprises raise capital. This is a significant addition to literature, given the paucity of research on how social enterprises are currently diversifying their sources of income in resource constrained environments .Contemporary literature on the way social enterprises augment their incomes has largely focused on practices underpinned by grant funding and loan finance instruments, with very little insight into equity investments and financial literacy (Brown, 2007). Our findings reveal a much stronger desire by social entrepreneurs in South Yorkshire to reduce reliance on grant finding as the main source of income for social enterprises. This represents a paradigm shift in the way these individuals are responding to changes in the wider environment to strengthen their organisations' capacity to deliver more value to their communities of benefit. This is particularly salient at a time when social entrepreneurs in the UK are under pressure to look for alternative sources of finance due to the imminent withdrawal of the UK from the European Union (Brexit). For example, current European and Structural Investment funding for the UK will come to an end in 2020 and this is likely to have serious fiscal implications on financial support for social enterprise across the country (Ministry of Housing, Communities and Local Development, 2016). That said, we acknowledge that social entrepreneurs still require grant funding to support the activities of their organisations in deprived communities, thus enabling them to continue performing their social functions. However, considering the emergence of new financing opportunities they will need ongoing institutional support and relevant financial literacy training and education (Johnson and Sherraden, 2007) in order to take advantage of these new ways of financing

The limitations of this research are largely related to the geographical focus of the research in that it is limited to South Yorkshire and does not capture the approach of other social entrepreneurs in other parts of the country and beyond, to innovation and financing in resource constrained environments. In addition, we acknowledge that additional research is required to explore how social entrepreneurs that are financing their operations through equity investments are able to manage an enhanced stakeholder base while at the same time maintaining their social objectives. It would also be useful to explore further the impact of equity investments on the financial performance of social enterprise and whether this concept can be widely applicable to other socio-economic contexts.

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Table 1: Cases under investigation

	Thematic and Enterprising Activities	Type of Legal Structure	Financing Structure
The Meeting Place	**Thematic activities** 1. Promotion and training of horticulture /gardening. 2. Provision of meeting/office space for local authority staff and visitors **Enterprising activities** 1. Delivering horticultural training under contract from local authorities	Company Limited By Guarantee (CLG)	1.Grant funding 2.Limited trading
The Contractor	**Thematic activities** 1. Promotion of a broader understanding of the importance of green space, particularly within areas of social deprivation. 2. Offers direct employment and training opportunities for local people interested in environmental management. **Enterprising activities** 1. The organisation undertakes landscaping activities including garden pruning for fee paying customers 2. The organisation also provides environmental conservation consultancy services to organisations that can pay for the services.	Share Capital (CLS)	1.Equity investments 2.Loans 3.Trading
The Resource Centre	**Thematic area** The organisation provides; 1. Training in arts and crafts for young adults. 2. Training for people getting back to work after long illness. **Enterprising activities** Current income generated by ; 1. Provides a 'Home Services Provision', which is a handyman service for the elderly. 2. Provides 'back to work' training services under contract from local authorities	Company Limited By Guarantee (CLG)	1.**Grants** **2.Loans** **3.Trading**