

Research Report

Rural Social Enterprise: contributions, challenges and support needs

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NICRE Research Report No 12: November 2022

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Abstract

The contribution and potential of social enterprise (SE) as a pathway to enabling prosperous, inclusive and sustainable rural economies and communities is examined using a mixed method approach: statistical analysis of the two available UK data sets from pre-pandemic 2019, supplemented by qualitative insights from interviews and a focus group with SE and rural economy support providers.

Rural SEs, although variously defined and measured, comprise up to a third of the total UK social enterprise population and nearly one tenth of all rural SMEs. They tend to be very small, highly reliant on volunteers, and often women-led. They mainly serve local markets and often address rural community needs where there are shortfalls in both public and private sector service provision. Key barriers relate to the operational costs of running a business, including the affordability of premises, and challenges of income generation, particularly in smaller and more geographically remote communities.

The supportive ecosystem for rural SE is patchy and perceived to be insufficient across much of the UK, despite many individual policy elements being in place and evidence of more 'joined up' support, pooling of resources and collaboration in some localities. While taking account of the diversity of rural SEs, the study identifies three key areas of resilience and dynamism which need to inform future support provision to raise aspirations and social-entrepreneurial capabilities across the rural SE sector:

- **Income diversification and innovation** - for resilience and sustainable growth;
- **Pooling resources and knowledge of 'what works'** - to overcome rural isolation and 'smallness' through peer-to-peer support, networks, partnerships and sustainable growth hubs;
- **Engaging beneficiaries and community members** - through inclusive decision-making for sustainable regeneration and democratic ownership.

Acknowledgements and funding

The project was funded by the National Innovation Centre for Rural Enterprise (NICRE) who we thank for their support and for helpful comments on the draft report provided by Barbara Tocco and Katie Aitken-McDermott. We are also grateful to the invited participants for their generous and insightful contributions, Andrew O'Brien for chairing the focus group at short notice, and to the Department for Business, Energy and Industrial Strategy (BEIS) and Social Enterprise UK (SEUK) for making the *Longitudinal Small Business Survey* (LSBS), and the *State of Social Enterprise Survey* (SOSE) data, available to the research team.

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Non-technical executive summary

Context and approach to the research. This study examines the contribution and potential of social enterprise (SE) as a pathway to enabling prosperous, inclusive and sustainable rural economies and communities. SEs take diverse forms but are generally understood as organisations that trade in order to support a primary social and/or environmental mission. The definition adopted by the UK government includes both SEs with voluntary and community sector legal forms and mission-led or purposeful businesses with private sector legal forms.

This mixed method study began with an analysis of the two available UK data sets from pre-pandemic 2019: The *Longitudinal Small Business Survey* (LSBS), conducted for the Department for Business, Energy and Industrial Strategy; and the *State of Social Enterprise Survey* conducted by Social Enterprise UK (SEUK). The LSBS utilises a broad definition of SE that includes a greater proportion of enterprises with 'for profit' legal forms than does the SEUK data. The statistical evidence from these two surveys is supplemented by qualitative evidence from interviews and a focus group discussion with SE support providers and others.

Economic contribution and business performance. SEs comprise 8.7% of the total rural small and medium-sized enterprise (SME) population, a slightly higher proportion than in urban areas. Rural SEs tend to be:

- very small (micro) businesses, a characteristic shared with all rural SMEs;
- significantly more likely to be self-employed/zero employee enterprises than urban SEs;
- mainly serving local markets with about one in ten exporting services or goods;
- performing similarly to urban SEs in terms of employment and turnover growth, but with more rural SEs making a profit (90.9%) compared to urban SEs (84.1%) and all SMEs (80.4%).

Although widely distributed, SEs are less likely to be found in the *most deprived* and in the *most affluent* areas. In the most deprived rural areas, only 5.3% of SMEs are social enterprises whereas in the most deprived urban areas SEs comprise 8.5% of all SMEs.

Characteristics. Concentrated in health, arts/entertainment, and primary sectors (e.g. agriculture), rural SEs are also a significant component of the UK SE population, with 33.6% of all SEs found in rural areas compared to 31.2% of SMEs. LSBS 2019 also shows that rural SEs tend to be:

- highly reliant on volunteers and often women-led;
- older and more established than urban SEs (48.3% v 35.2%); but
- with a high proportion of younger rural SEs established for less than 6 years (6.1% v 5%).

SEUK 2019 shows the median size of all SEs was one f/t paid employee, and rural areas have significantly lower proportions of SEs in the 10-49 employee size band (11.2% v 20%) and a higher proportion of volunteer only enterprises (23.5% v 14.1%).

The diversity of rural SEs and their varied motivations is reflected in the qualitative evidence, with support providers identifying four broad types or client groups:

1. *Traditional non-profit organisations*: numerous small community organisations that have some trading activity, often charities/company limited by guarantee (CLGs).
2. *Collectively owned and controlled community businesses*: with legal forms that enable democratic governance, such as the Community Benefit Society (CBS) form.
3. *Growth-oriented SEs*: a more entrepreneurial and dynamic group, often taking the Community Interest Company (CIC) form.
4. *Private enterprises that may self-define as SEs*: including sole traders and 'lifestyle businesses' e.g. creative food, micro-breweries, and arts/crafts.

Trading markets: rural SEs have diverse customers but are somewhat more likely to trade with the general public than urban SEs (58.5% v 52.9%) and less likely to trade with private companies, the public sector and third sector.

Growth in employment and turnover: rural and urban SEs perform similarly, with 7.6% reporting employment growth in the previous year compared to 5.4% of all SMEs.

Innovation: contradictory results from the two surveys appear to arise from different designs and sampling strategies. Specifically:

LSBS 2019 shows rural SEs were *more innovative* than urban SEs:

- New or improved goods and services were significantly more likely to have been introduced during the previous 3 years in rural than urban SEs (13.9% v 7.6%).
- R&D investment was also higher in rural SEs (£10,000 v £4,668).

SEUK 2019 shows rural SEs to have been significantly *less innovative* than urban SEs during the previous year but also records a higher overall level of innovation than the LSBS:

- New products and services - 49.7% rural v 59.3% urban
- New processes - 30.9% v 44.9%
- IT investment (new equipment/software) – rural 47.1% v 58.2%.

Further insights from support provider accounts include that:

- some innovation activity may not be captured by survey data;
- incremental and adaptive innovation is often constant in terms of ensuring SEs resilience;
- established models of rural SE which are known to serve communities well are also important;
- SEs are a source of social innovation with potential for wider transformational impacts on economy and society.

Challenges, barriers and support needs. Rural SEs face additional challenges to those experienced by urban SEs in terms of more limited consumer markets and sparser infrastructure in rural areas.

Workplace pensions, payment of the living wage, taxation and premises are proportionally higher barriers for rural SEs, but external financing and staff skills/recruitment issues are less of a barrier compared to urban SEs.

Skills and training of workforce: LSBS 2019 shows that rural SEs provide slightly more formal training (45.5% v 42.2% urban); SEUK 2019 shows skills & training provision to be higher overall (65%) with little rural/urban difference, but rural SEs are significantly less likely to have recruited staff or increased levels of training during the past year.

Use of external support and finance: a higher proportion of urban SEs (10.1% v 7.8% rural) accessed support during the previous year. LSBS 2019 also shows fewer rural SEs seeking external finance (6.4% v 9.5% urban).

Access to premises: The LSBS finds that 12.4% of rural SEs experience this as a constraint, compared to 8.5% of urban SEs which may be due to the affordability of premises for lower income rural SEs. Some interviewees felt there were many opportunities for creative regeneration of heritage/derelict buildings, although the community ownership model appears to have less traction against private developers in England compared to Scotland.

Implications and lessons for policy and support practice. The policy framework and ecosystem for rural SE is patchy and fragmented across the UK, despite many individual components being in place and evidence of more joined up support, pooling of resources and collaboration in some localities. Support providers in England were particularly concerned at the insufficiency of the policy and support system and the negative impact of public sector austerity on many rural local authorities and their capacities as commissioners of public services and as key sources of support for rural SE. Scotland is recognised as having a stronger policy framework for SE which is also more attuned to the needs of rural communities.

While recognising the diversity of rural SE types, three key areas of strength are identified which can also inform future support to raise aspirations and social-entrepreneurial capabilities:

- **Income diversification and innovation** - for resilience and sustainable growth;
- **Pooling resources and knowledge of 'what works'** - to overcome rural isolation and 'smallness' through peer-to-peer support, networks, partnerships and sustainable growth hubs;
- **Engaging beneficiaries and community members** - through inclusive decision-making for sustainable regeneration and democratic ownership.

1. Introduction and background

Aims and objectives

This study examines the contribution and potential of social enterprises (SEs) – organisations that prioritise social and environmental objectives – as pathways to strengthening rural economies and tackling the challenges faced by rural communities. We draw on existing survey data sources and qualitative evidence from key informants to:

1. Identify the various types of SE found in rural areas across the UK, taking account of their diverse ('hybrid') organisational forms;
2. Assess the different types of rural SE in terms of their:
 - performance as businesses
 - motivations and orientations towards growth
 - how they contribute to rural communities
 - their strategies, innovation activity and collaborations
 - barriers faced and support needs

The study provides important new insight and makes a number of recommendations for policy and support provision.

Defining social enterprise and the UK policy context

Social enterprises are hybrid or mixed purpose organisations that combine the approaches (or 'institutional logics') of the private-for-profit, civil society and public sectors (Doherty et al., 2014; Pache and Santos, 2013). They deploy business and market-based approaches to trade in order to support a primary social purpose and often take ownership forms that restrict the distribution of profits and assets to shareholders. Their varied organisational types depend on the legal forms available in the particular national context; in the UK these can include a charity or company limited by guarantee (CLG), community interest company (CIC), community benefit society (CBS), a mutual organisation, social business or co-operative (Lyon et al., 2019).

A broad definition of social enterprise (SE) was adopted by the UK government in 2002 to guide subsequent policy and legislation, and was formulated to accommodate a diversity of organisational types and legal forms, and to allow flexibility of interpretation. Hence SEs are defined by the UK government as: *"Businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners"* (DTI, 2002). This definition, which allows the inclusion of organisations with private sector legal forms, such as Companies Limited by Share, has been used to provide estimates of 99,000 social enterprises with employees in the UK, or 9% of the small business population (DCMS, 2017). The tighter definition advanced by the European Union (European Commission, 2016), which excludes organisations with private sector legal forms, suggests a much lower figure of 30,800 SEs in the country, with an estimated turnover of £20.9 billion (Lyon et al., 2019). The different definitions and the fact that some

businesses with private sector forms self-identify with the concept underscores the hybrid, contested and evolving nature of social enterprise.

SEs seek to challenge 'business as usual' by developing inclusive approaches and innovative practices which build on the capabilities and resources of the communities they serve (Doherty et al., 2014; Pache and Santos, 2013). They address the needs of some of the most vulnerable and harder to reach groups through activities that include specialist health and social care, vocational training and adult learning services, sustainable food provision, housing associations, and tackling concerns around mental health, social isolation and economic exclusion (Stumbitz et al., 2018; SEUK, 2019 and 2021). Social enterprises and other socially-oriented businesses have a key role to play in providing 'good work' and volunteering opportunities (Stumbitz et al., 2021) and facilitating the transition to a greener, more inclusive and sustainable form of prosperity (Vickers and Lyon, 2014; Jackson, 2017).

There has been growing recognition of the contributions and potential of SEs to address a range of challenges facing rural economies and communities. Recent reviews of the academic and policy literature have examined the breadth and depth of research insight on rural SEs in the UK and Europe (van Twuijver et al., 2020), particularly as key actors in addressing needs that would otherwise not be met. Steiner and Teasdale (2019) in their literature review and exploratory study of two rural areas in Scotland show the potential of SE in meeting shortfalls in public service provision, promoting community cohesion, and contributing to the transition to a more sustainable economy. SEs, as locally embedded actors, also often possess the networks and credibility with their communities to better engage those not reached by top-down policy interventions and strategies (Vickers and Lyon, 2014; Richter, 2019).

Policy and support – the 'ecosystem' concept and its relevance to rural SE

Social enterprises have complex characteristics which mainstream business support and membership organisations can be insensitive to, namely the primacy of their social/environmental missions, distinct legal and governance structures, reliance on volunteers, and mixed income streams that include grants and philanthropic/charity donations. Given experiences of the limitations of mainstream business services, an array of specialist support programmes and new providers have emerged in recent decades (Lyon and Sepulveda, 2012; Richardson, 2015). National membership bodies include Co-operatives UK, Locality, Social Enterprise UK, and Social Firms England. There are also various providers of financial backing and expertise to support start-ups and already established SEs and community businesses to grow, such as Plunkett Foundation, Power to Change and UnLtd.

The notion of a 'joined up' ecosystem of support has gained much attention as a framework for understanding the role of different actors and policy interventions to support business, entrepreneurship and innovation (e.g. Moore, 1993; Isenberg, 2011; Stam, 2015; Brown and Mason, 2017) as well as the social economy and social enterprise (e.g. Roy et al., 2015; Hazenberg et al., 2016; Roundy, 2017; Vickers et al., 2017a). It uses an ecological metaphor of the co-evolution of organisms with their environment with the aim of providing a holistic vantage point from which to consider the mix of support provision and the extent of functional 'joined upness' between the diverse actors and their interventions, i.e. policy makers and various government departments and agencies,

sector/membership bodies and other providers of support including finance, mentoring and training services. Some contributions have sought to provide frameworks for assessing entrepreneurial ecosystems including in terms of how 'successful' places – usually cities or city regions – have well-functioning networks and munificent resource endowments (Spigel and Harrison, 2018). On the other hand, the ecosystems of 'failing' and 'left behind' places are characterised by weak networks and sparse resources, a characterisation that is likely to apply to many rural and geographically remote or 'peripheral' areas (Leckie et al., 2022).

Despite the prominence and traction of the ecosystem concept among policy makers and academics a number of critical concerns have been raised, including a danger of reproducing previous overly mechanistic 'one-size fits all' and 'top-down' approaches to policy and support under the guise of a holistic metaphor. There remains a need to better understand the multi-scalar levels of governance – national, regional and local; the heterogeneous nature of places and of local/regional ecosystems (Stam, 2015; Alvedalen and Boschma, 2017; Brown and Mason 2017). Normative issues and the plurality of interests and values held by different actors are of particular importance in relation to social enterprise and the social economy. Top-down ecosystem perspectives which emphasise functional integration between the individual elements of support provision may be insensitive to such issues. For instance, Nicholls and Teasdale (2017) suggest how continuity and change between different political regimes and shifting policy paradigms have influenced the interventions of UK governments over time and how these have both enabled and constrained the contributions of social economy and civil society actors when responding to public service and societal challenges.

The evolution of policy and resulting variations across the UK can be illustrated by comparing the approaches pursued in England (largely as determined by the Westminster government) with those adopted in Scotland. Despite positive developments emanating from Westminster to encourage SE during the 1980s and 1990s (Nicholls 2010), over a decade of 'neoliberal' policy and public sector austerity has had varied impacts on the supportive ecosystem for SE (Nicholls and Teasdale, 2017; Lyon et al., 2019) and often negative impacts on the social infrastructure of public and community health and wellbeing services (Gray and Barford, 2018; Marmot, et al., 2020). The Scottish context, on the other hand, is internationally recognised as having been more consistently conducive to investment in the ecosystem for social enterprise (Roy et al., 2015; Hazenberg et al., 2016). This appears to have resulted from the more devolved nature of governance in Scotland, ongoing and more consistent support and interest from political parties, and a stronger tradition of the social economy (Lyon et al. 2019).

Also relevant to the supportive context in rural areas, SEUK's Social Enterprise Places Programme recognises 'hotspots' of activity to promote, raise awareness, and build the markets for social enterprise at local and national levels (SEUK, 2016). There are currently 33 accredited Social Enterprise Places – a highly diverse group of counties, regions, towns and cities, which includes areas that are more geographically isolated such as Alston Moor, Cornwall and the Scilly Isles, Cumbria and Staffordshire.¹ Collaborative action between SEs and other actors is also evident in the experiences of community food hubs (CFCs) in some localities, and how they are addressing 'market failures' related to

¹ <https://www.socialenterprise.org.uk/social-enterprise-places/current-places/>

environmental externalities, food disadvantage and food health through collaboration and social innovation (Le Blanc et al., 2014; Curry, 2022).

The current study allows us to re-examine the issues raised by this contextual introduction and brief overview of the literature, and to probe more deeply into the characteristics, challenges and further potential of SE to enable prosperous, inclusive, and sustainable rural communities. The focus on the rural context, a neglected area of government policy, also has potential to provide important insight and lessons in relation to the government's Levelling Up agenda and its aim to redress the regional disparities that have long dogged the UK economy (NICRE, 2021; Robinson, 2021; Leckie et al., 2022).

2. Research design and methodology

The study utilises a multi-method approach which combines analysis of the two main national data sets on SE with qualitative insight from interviews and a focus group discussion held with key informants. The two UK-wide data sets are the Longitudinal Small Business Survey (LSBS), conducted for the Department for Business, Energy and Industrial Strategy (BEIS); and the State of Social Enterprise Survey (SOSE) conducted by Social Enterprise UK. Both use national postcode-related definitions of rural and urban locations.² Data gathered by both surveys in 2019 is used to provide comparable pre Covid-19 data (also the most recent LSBS data available at the time of the analysis). Weighted data is used to enable comparisons between rural SEs and their urban and mainstream SME counterparts, and to determine statistically significant differences.

The LSBS was established in 2015 by BEIS as an annual partial panel survey designed to be broadly representative of the UK small and medium-sized enterprise (SME) population. The LSBS is also used to conduct the Social Enterprise Market Trends analysis (DCMS, 2017). The LSBS data allows us to distinguish rural SEs according to their post code, with a sample of 1,132 rural SEs of which approximately 300 can be classified as rural SE employers. The analysis compares SEs with other rural enterprises, and rural SEs with those in urban areas. SMEs are typically analysed by their employment size, with the micro size band capturing enterprises with just 1-9 employees, small enterprises having between 10-49 employees, and the medium size band with 50-249 employees. To compensate for the depletion of panel survey businesses over time, the survey is topped-up annually with new respondents with similar characteristics and to ensure sufficient coverage across UK regions, broad sectors and employee size bands. The survey is then cross-sectionally weighted to provide robust data and analysis of the SME population (BEIS, 2020).

In recent years there has been growing recognition of the definitional difficulties that hamper the identification of SEs in the general business population, raising questions about the reliability of the data collected in the LSBS. The DCMS Social Enterprise: Market Trends 2017 report definition and calculation uses a decision tree logic model to distinguish between the following categories:

1. **Social enterprises:** a range of organisations that have a social mission (social and environmental development goals), receive at least 50% of their annual income from

² <https://www.gov.uk/government/collections/rural-urban-classification>

trading and chiefly reinvest (over 50%) of their annual surplus into their social mission. These are the DCMS defined social enterprises. A subset of enterprises within this group have legal forms that restrict the distribution of profits and assets, thus corresponding to a narrower definition of SE that comprises organisations that are often referred to as the voluntary and community sector.

2. **Traditional non-profit organisations:** organisations that receive less than 50% of their annual income from trading, such as charities.
3. **Socially oriented enterprises:** that have a social mission, but do not chiefly reinvest (over 50%) of their surplus into their social mission.
4. **Commercial SMEs:** enterprises that do not have an explicit social mission.

The government (DCMS) definition of social enterprise is therefore relatively broad in that it includes 'mission-led' or purposeful businesses that have 'for profit' legal forms. By way of contrast, European Union funded mapping surveys (2018-2020) adopt a stricter definition that focusses on SEs within the voluntary and community sector with legal forms that incorporate asset locks and limits on profit distributions (Lyon et al., 2019). This narrower definition is also used by some policy and support initiatives across the UK, such as many social investment funds and SE support providers in Scotland, i.e. through Social Enterprise Network Scotland (SENScot).

SEUK's *State of Social Enterprise Survey* (SOSE) is published every two years and captures responses from SEUK members and others. The SOSE 2019 data is used to selectively examine certain issues in greater depth than is possible using the LSBS data.³ The SEUK survey is based on a sample drawn from its membership base (about 80%) and of Coops UK (about 15%), and 'other contacts' (5%). The survey sample has a majority of respondents that fit the limited asset/profit distribution definition used by the European Union, with just under a quarter (23%) of the sample being mission-led businesses with private sector legal forms but which participate in social enterprise activities (SEUK, 2019).

The multi-method approach gives rise to some findings that may appear ambiguous, unclear or contradictory. This reflects in part the tendency of survey methods to generalise on the basis of limited sample sizes and 'tick-box' approaches to questionnaire design, whereas qualitative methods are able to provide more in-depth insight into the 'how' and 'why' questions. As far as possible, we flag up and seek to explain differences and findings that may seem contradictory, and to comment on the limitations of the evidence where appropriate.

Table 1 provides a summary overview of differences found in the analysis of the two survey data sets which we further explore in the findings.

³ SOSE 2021 was completed in June 2021 – see SEUK (2021).

Table 1: Summary of differences between findings of LSBS & SEUK (SOSE) Data (2019)

	LSBS	SEUK/SOSE
SE Unweighted Base (UB) n=	1132 SE (All SMEs = 10969)	749
SE definition	>=50% trading	>=25% trading
Weighting	National SME population	National SE membership
Weighted % SE results		
SE legal asset lock entities (CLG)	c.25%	c.60%
Rural	33.6	22.5

Qualitative interviews and focus group

The interviews were conducted with 13 social enterprise support providers from across England, Scotland and Wales. An initial list of potential interviewees was generated by the research team, with further contacts being added through a process of snowballing. The interviews were conducted (mainly online via Zoom) between September 2021 and February 2022.

The SE support participants covered a wide variety of geographical contexts, including two having a UK wide remit and three covering Scotland. Some were particularly focused on the needs of SEs in remote rural locations (e.g. much of Scotland and Wales, Alston Moor, Cornwall, Cumbria, and Northumberland) whereas others covered areas where many client SEs were located in towns, peri-urban and semi-rural areas (e.g. Oxfordshire, Stroud in Gloucestershire). Most interviewees had many years' experience of supporting SEs, often both rural and urban, and some were also highly knowledgeable of the national and sub-national policy context and support (eco)system. Some of the insights reported here therefore have wider relevance for SE practice, policy and support provision across the UK.

The interviews and focus group were recorded and automatically transcribed with the permission of the participants. The interview topic guide and list of participating organisations are provided in the Annex. The focus group was held on 29th March 2022 and involved a presentation and discussion of the study's emerging findings to help inform the interpretation of the evidence and to elicit reflections on the implications for future policy and practice. The 16 participants included support provider interviewees and representatives of organisations concerned with rural communities and SE. The focus group was conducted online and lasted for two hours. The discussion was guided by the following broad questions:

1. The evidence/research base: what is missing or needs improving?
2. The supportive (eco)system for rural SE: how is it working (or not)?
 - Differences between Scotland, England, Wales – what can we learn?
3. What other policies, activities, collaborations might work:
 - for rural SEs to thrive and for wider take-up of successful models and social innovations?
 - to further enable inclusive, democratic and sustainable rural communities?

3. Findings

The findings are presented in relation to the main areas of investigation: the scale and distribution of the rural SE population; types of rural SE; their characteristics and performance; business barriers and support needs; and the implications for support policy and practice.

3.1 The rural social enterprise population

Rural social enterprises are a numerically significant component of the UK's SE population. According to the LSBS 2019 data, 33.6% of all SEs are found in rural areas compared to 31.2% of all SME businesses⁴. Enterprises in rural areas are significantly more likely to be social enterprises than in urban areas: of all SMEs in rural areas, 8.7% are SEs compared to 7.8% in urban areas that conform to the broad definition of SE used by the LSBS Survey.⁵

There are some important regional variations to the distribution of SEs, as shown in Table 2.

Table 2: Regional distribution of social enterprises

(Row%)	% of Rural ents that are SE	% of urban ents that are SE	% of all ents that are SE	% Rural SE in each area	% All SE in each area(col %)	% of All SME (col%)	N= (unweighted base)
Scotland	7.9	6.4	6.9	2.6	4.9	5.7	1088
Wales	6.3	4.4	5.6	3.6	2.5	36	384
NI	13.4*	10.5	12.3	7*	3.4	2.3	476
North	9.7	7.5	8.1	2.5	19.3	19.5	1957
Midlands & SW	8.9	10	9.7	3.2	36.8	31.2	2938
South (exc London)	8.2	6.1	7	2.9	24.8	29.1	2867
All UK	8.7*	7.8	8.2	2.7	100	100	10850

Source LSBS 2019, weighted data; * sig >.05

Although there are pockets of stronger rural SE representation in Northern Ireland, and Northern England, the data sizes are small and are not supported across the larger regions examined (e.g. North of England). Taking the broader definition of SE used by the LSBS, it appears that Scotland and Wales have a lower proportion of SEs in their rural areas compared to the rest of the country.

⁴ The SEUK data, which includes fewer SEs with private sector legal forms (c.40%), finds that just 22.5% are found in rural areas. This is still, nevertheless, an important component of the rural business population.

⁵ The DCMS definition includes a large proportion of 'for profit' SEs (c.75%) alongside those that take forms that limit the distribution of assets or profits to individuals.

While SEs are geographically distributed across all types of areas, they are less likely to be found in the *most deprived* and in the *most affluent* areas (Tables 3 and 4). The 20% most deprived areas host only 12.1% of all SEs. These areas also only host 11.9% of all SMEs showing a general lower level of SME activity. When looking at SMEs in the most deprived rural areas, only 5.3% are social enterprises, whereas urban SEs make up 8.5% of all SMEs in the most deprived urban areas. This has implications for how support for start-up, growth and resilience is targeted, i.e. given that most deprived areas appear to have fewer SEs as well as potentially having greater need for the services they offer.

Table 3: Percentage of enterprises that are SEs in different locations

(Row%)	% of Rural ents that are SE	% of urban ents that are SE	% of all ents that are SE
Most deprived 20%	5.3***	8.5	8.3
21-40%	8.2	10.6	10.1
41-60%	8.9	7.7	8.2
61-80%	9.9	7	8.2
Least deprived 20%	7.6	6.1	6.6

Source LSBS 2019, weighted data; *** sig >.001

Table 4: Percentage of SEs found in deprived and more affluent areas

	%Rural SE	%Urban SE	%All SE (col%)	%SME (Col%)	Unweighted base n=
Most deprived 20%	1.3***	17.6	12.1	11.9	1562
21-40%	10.1***	26.6	21.1	17	2089
41-60%	31.9***	19.5	23.6	23.5	2562
61-80%	38.6***	18.1	25	24.9	2519
Least deprived 20%	18.1	18.3	18	22.7	2092

Source LSBS 2019, weighted data; *** sig >.001

3.2 Types of rural social enterprise

3.2.1 Legal forms and objectives

The qualitative interview evidence adds complementary insight to the survey findings and is particularly helpful in understanding the varied types and characteristics of rural SE, including with respect to their motivations, orientations towards growth and contributions to innovation. Most of the support providers spoke of a broad experience of engagement with a diverse range of organisations, but primarily with those taking social enterprise legal forms, such as Charity CLG, Community Interest Company (CIC) or Community Benefit Society (CBS). A few also supported purposive for-profit businesses with private sector

forms, although this tended to be on a case-by case assessment depending, for instance, on how they treat employees and demonstrate their contributions to social value. The interviews and focus group confirm the crucial motivation and driver of community-based SEs to address failures and gaps in both public services provision and 'market failure' or lack of effective customer demand for private sector provision. Participants also highlighted the strength of many rural SEs of their close understanding of the communities in which they are embedded, and the motivations of founders to engage with communities to address local needs.

Four main organisational types or client groups emerge from the accounts of support providers:

1. **Traditional non-profit organisations:** numerous small community organisations that have some trading activity, often charities/CLGs and seen as a crucial subset of SE by some support providers, particularly in remote rural areas (e.g. Alston Moor, Cumbria). Organisations in this group often do not see themselves as SEs or even as community businesses and tend to be resistant to the language of business and enterprise: *"You cannot talk to them about being a social enterprise or a business [...] 99.9% of them will flatly refused to have that conversation because they're there for a social purpose."*
2. **Collectively owned and controlled community businesses:** having membership/ shareholding and formal mechanisms for democratic governance, and often taking the CBS or sometimes CIC form. Plunkett Foundation provide support and advocate for this important subset of enterprises across the UK⁶: *"The key difference is the collective ownership [...]. And then that will in turn help the business to be successful [so it's] driven by community action, and people getting together and acting collectively."*
3. **Growth-oriented SEs:** a more entrepreneurial and dynamic group. For instance, Grace Network in Gloucestershire⁷ focus exclusively on such SEs taking the CIC form, which they see particularly suited to growth and in terms of combining a social mission with a commercial focus: *"I'm strong on the Community Interest Company model [...] for me, social enterprises have to have the body of a business and heart of a charity. And if they're not that, we wouldn't get involved with them."*
4. **Private enterprises committed to social value:** including sole traders and what were referred to as 'lifestyle businesses', e.g. creative food, micro-breweries, arts/crafts etc, with many such enterprises and start-ups in Southwest England. Some of these may self-identify as SEs.

One support provider argued that greater priority needed to be given to the latter category - purposive private sector and other mainstream enterprises:

"Whilst I'm passionate about supporting social enterprise, I think if we're going to make a difference in the world, a lot of that is going to come from shifting mainstream businesses, so I've actually trained with the B Corp movement [...] so I'm really interested in helping mainstream businesses become more purposeful as well."

⁶ See Plunkett Foundation (2020a and 2020b)

⁷ <https://www.thegracenetwork.org.uk/>

3.2.2 Broad sector

Broad sectoral analysis of the LSBS data at SIC first digit level shows most SEs (urban and rural) are concentrated in service sectors, notably health (21.7%), arts and entertainment (16.3%), other services (11.5%) and accommodation (10.5%), whilst the primary sector is also an above average proportional contributor (10.5%). Comparison between rural and urban reveals significant differences, with rural SEs overrepresented in primary sectors such as agriculture, as would be expected, and a greater proportion in health and in arts/entertainment.

Table 5: Broad Sector (SIC 1 digit) Location of SEs by Rural-Urban designation

SE (Row%)	Rural	Urban	N= (unweighted SE cases)
Primary	11.4*	5.3	37
Manufacturing	4.7	5.3	73
Construction	5	9.4	92
Wholesale/Retail	7.6	7.6	134
Transport	1.9	2.3	44
Accommodation	11.6	9.8	112
ICT	11.5	4.8	39
Finance/Real Estate	6.8	5.5	46
Prof/Scientific	4.2	4.8	87
Admin	12.7	5.2	78
Education	2.9	3.7	69
Health/Social	21.7*	18	163
Arts/Entertainment	17.9*	15.9	72
Other Services	18.6	9.6	84

Source LSBS 2019, weighted data; * sig >.05

3.2.3 Trading markets

LSBS 2019 provides little evidence on SE trading markets but does show that most rural SEs serve local markets with only about one in 10 exporting services or goods (Table 7). The more detailed breakdown provided by SEUK 2019 shows trade with the general public (54%) to be highest, followed by private sector companies (47.3%), the public sector (45%) and other third sector enterprises (40.2%). Rural SEs are significantly (>.1) less likely than urban SEs to trade with private companies, the public sector and third sector but more likely to trade with the general public (58.5% v 52.9%).

There is a complex relationship with the public sector, as limited and declining state provision of services in rural areas is also a driver for SE activity. Comments from support providers indicate that many rural SEs have *"some government or public money mixed up somewhere in what they're doing, even if it's a small grant, or it's allowing them to achieve more outcomes with a particular group or something like that."* This is particularly important in more remote areas, as illustrated by the comment of another interviewee on the context of the Scottish Islands: *"The one reason why social enterprises do thrive in rural and isolated*

communities is because of the recession of the state, and without social enterprise there would be no people living on the island."

3.3 Characteristics of rural social enterprises

LSBS 2019 shows rural SEs to be significantly more likely to be self-employed individuals (i.e. zero employee enterprises) and significantly (at $>.05$ level) younger than urban SEs. However, a significantly ($>.05$) higher proportion of rural SEs (48.3% v 35.2%) are older, having been established for more than 20 years. Rural SEs are also significantly ($>.01$ level) more likely to be women-led than their urban counterparts, but highly unlikely to be minority ethnic-led although there are insufficient rural minority ethnic cases for statistically robust analysis.

The SEUK 2019 data reveals no significant differences by establishment age, gender or ethnicity. The median size of enterprises was just one full-time paid employee in both urban and rural areas, but urban SEs had a higher average full-time paid employment size (5.2 v 2.2) and greater use on average of casual and part time paid staff (3 v 1.3). The SEUK data also reveals significantly ($>.01$) lower proportions of small SEs (10-49 employees) in rural areas (11.2% v 20%) and a higher proportion of volunteer only enterprises (23.5% v 14.1%). This latter finding (not a recorded variable in LSBS) is indicative of the heavy reliance of rural SEs on volunteers.

Commenting on these findings during the focus group discussion, one participant suggested that some larger rural SEs appeared to have been missed by the survey evidence: *"housing associations are large social enterprises and figure large in a lot of rural areas."*

The LSBS data shows rural SEs to be performing similarly to urban SEs in terms of growth in employment and turnover, but with more rural SEs reporting making a profit (90.9%) compared to urban SEs (84.1%) and all SMEs in the UK (80.4%). Both urban and rural SEs are less likely to have stable employment with 7.6% reporting an increase since the previous year compared to 5.4% for all SMEs. Furthermore, 18.8% of rural SEs report a decrease compared to 18.2 % of urban SE and 14.8 % for all SMEs.

The SEUK survey also indicates that only around one in eight rural SEs export (through sales or licensed activities), with no significant difference from urban SEs. This supports the prior finding of rural SEs being focused on delivering local services and products.

SEUK 2019 provides some data on staff, beneficiary and community involvement in decision-making (Table 6). About two-thirds of all SEs are shown to actively involve staff, about a third involve beneficiaries (30.6% rural v. 34.3% urban) and somewhat fewer involve the community in decision-making, but with a higher proportion of rural SEs (28.7 v 24.5), although not significant. The relatively low levels of beneficiary and community involvement could be seen as surprising, given that this is often represented as a key strength of rural SE. This issue is further discussed in a later section (3.5.5).

Table 6: Stakeholder engagement

Stakeholder data	Where high priority			Total	N= (unweighted base)
	Col%	Rural	Urban		
Staff actively involved in decision making		66.9	64.8	66	494
Beneficiaries actively involved in decision making		30.6	34.3	33.5	249
Community actively involved in decision making		28.7	24.5	25.4	193
Invest well in staff and development		28.2	37.1**	35.1	263
Minimise impact on environment		55.1	54.3	54.5	435
Total		189	599	788	

Source: SEUK 2019

3.4 Innovation

Innovation is a complex and multi-dimensional phenomenon (Fagerberg et al., 2005) and the challenges of assessing contributions to different types of innovation are reflected in this study. LSBS 2019 shows rural SEs were significantly *more likely to have introduced new goods and services* to their business (either some, or all new goods) during the past three years compared to their urban counterparts (Table 7). The data (UB=1130) also indicates that the median level of R&D investment during the last three years was higher in rural SEs (£10,000 v £4,668 in urban), although the urban R&D average was considerably skewed by some very large investments.

Table 7: Improved or New Goods and Services and Exporting, 2019

LSBS SE (Row%)	Rural	Urban	N= (unweighted base)
Introduced new or sig improved services	13.9	7.6	210
Introduced some new goods/services to firm	15.1*	10.6	131
Introduced all new goods/services to firm	10.4*	9.7	312
Export	10.2*	6.4	86

Source: LSBS 2019; * sig >.05

The SEUK 2019 data records a higher level of innovation overall, but with rural SEs being significantly (>.01) *less innovative* than urban SEs during the previous 12 months: 49.7% introduced new products and services (v 59.3% of urban counterparts); 30.9% developed new processes (v 44.9%). Rural SE were also less likely to have invested in IT (new equipment/software) – 47.1% v 58.2% urban. These variations appear to arise from the different designs and sampling strategies adopted by the two surveys.

Further insight from research participants relates to the nature of innovation and other strengths of rural SEs compared to private and public sector organisations, and how rural

SEs are able to survive and overcome barriers to deliver valued services to their communities. Some of the examples of innovative practice relate to the creative regeneration and diversified use of heritage or derelict buildings:

- **Rural pubs, shops, post offices** – many supported across the UK to convert to multi-service community hubs (Plunkett Foundation, 2020a and 2020b)
- **The Grace Network** - SE Hub in Stroud, converted from a warehouse as a facility for growth-oriented SEs to share and learn: “*overcoming the scattered nature of rural life.*”⁸
- **New Economy Centre at Selgars Mill** “*..an immersive work and play campus for building a democratic economy. We empower communities and individuals with both the practical and strategic tools they need to create change.*”⁹
- **Town Hall conversion** – SE hotel/café/arts venue in Torrington Devon

There were some mixed views with respect to innovation, however, reflecting the complexities and dynamics around different types of innovation, and issues of measurement. It was pointed out that some SE innovation activity may be 'below the radar' and not captured by survey data. Some felt that, as hybrid organisations, SEs were inherently innovative, and that adaptive innovation was constant in terms of ensuring survival in challenging contexts characterised by both public service and market failure.¹⁰

“In some respects, by their very nature social enterprises are innovative [because] they are working across the public sector, private sector and third sector in many cases.”

“I think recognising the need for constant innovation, and when you're operating in a market failure environment [that] demonstrates a significant business acumen and kind of dynamism.”

Also emphasised by some was the important role of some SEs as 'disruptive' or radical innovators able to introduce novel concepts, models and social innovations with wider potential for transforming how both the public and private sectors deliver services.¹¹

“I see social enterprise primarily as guinea pigs or vehicles by which you can test principles. So, innovating new approaches, social innovation, and indeed economic model innovation is where social enterprise has a particularly useful role to play. [...] we need quite a lot of disruption [and] thinking outside the box if we are to actually survive climate emergency and the rest of it.”

However, other participants were critical of what they saw as an 'obsession' on the part of policy makers (and some support providers) with innovation and business growth, and emphasised instead the value of established models which are known to work well:

“...it just seems to be the buzzword doesn't it in terms of measuring success, 'everybody must innovate' rather than focusing on what works well in the local setting [...] we've got a lot of social enterprises that have been around for a long, long time

⁸ <https://www.thegracenetwork.org.uk/>

⁹ <https://www.selgarsmill.co.uk/>

¹⁰ See also Aitken (2021).

¹¹ For example, Vickers et al. (2017b) in the case of public service mutuals.

and they continue to do fantastic work. They don't grow, they continue to do what they do, and we seem to be obsessed on growth and on innovation rather than supporting what's working well."

"You might look at a social enterprise and go, 'It's very small?', but it's been there for 10 years, it's not innovating but actually just standing still and maintaining yourself and maintaining your community does require a lot of innovation it probably goes unseen as well, so I think sometimes about the classification of that innovation and how we conceptualize it."

"There is a lot of self-confidence in these rural areas because they've been used to doing things for themselves, they know how to do things and they know what has to be done. So there's an incredible amount of knowledge and ability which we need to be sharing between these places."

Related to this, some of the focus group discussion centred on the important role of cultural and historical factors in underpinning traditions of self-help, cooperation and social enterprise in varied contexts across the UK, as illustrated by the following contribution from one participant:

"[T]hese rural places often flourish because of their alternative cultures, different languages - the Gaelic language the Cornish language and obviously the Welsh language - and these are things which bind people together and which enable people to collaborate in what they might not always consider to be social enterprise, but they are. And in some of these rural areas there is a history of religious or political self-help [e.g. in Alston where] the mining there was undertaken by the Quakers, the London lead mining company and the Quakers who set up the businesses in the Alston area have this strong sense of business and a social conscience and then the other side of this not if it's not religious it might be cultural insofar as the cooperative movement very strong cooperative movement in North Wales, and in North Wales they were very keen to say to us when we were looking at their work that Bangor university was created by the Welsh slate miners who wanted an education for their people. So I think there's some powerful drivers for social enterprises in these rural communities that we could make most of and share that ability between them."

3.5 Challenges, barriers and enablers

3.5.1 Types of barriers

Rural SEs face particular challenges in addition to those experienced by their urban counterparts related to the cost of doing business in rural areas and lack of a critical mass of customers needed to generate income. In terms of the main barriers to doing business, LSBS 2019 shows costs related to *workplace pensions, taxation, premises* and *living wage requirements* to be proportionally higher barriers for rural SEs (Table 8). However, external financing and staff skills/recruitment issues are less of a barrier compared to urban SEs.

Table 8: Barriers to doing business

LSBS SE (Row%)	Rural	Urban	N= (unweighted base)
Obtaining finance	6.1	15*	100
Taxation	12.3	8*	136
Staffing/skills	3.7	17.7*	159
Regulations	7.6	8	150
Premises	12.4	8.5*	71
Competition	9.1	6.2	171
Workplace pensions	18.6	8.6	81
Late payments	6.9	6	118
Brexit	8.5	8.6	80
Living wage	19.6	12.9	104
Other	7.4	1.4	19
None	4.7	8.6	36
Total n=SEs (UB)	111	247	358

Source: LSBS 2019; * sig >.05

Note: With respect to barriers to doing business, the LSBS adopts a one third survey cohort approach, meaning that the unweighted enterprise case base for rural SEs is low (after weighting rural SE = 8.5% of rural enterprises; urban SEs = 8.6% of urban enterprises).

3.5.2 Skills, training and advice

No statistical differences were recorded between workforce training activities – formal or informal (on the job) - of rural and urban SEs in the LSBS during the previous 12 months. However, rural SEs exhibit a slightly higher proportion undertaking formal training (45.5% v 42.2% of urban) and lower proportions undertaking informal (on the job) training (45.5% v 47.3%).

Similarly, the SEUK 2019 data reveals no significant difference between rural (65.2%) and urban (64.7%) but records slightly higher overall proportional levels of training taking place during the last 12 months than in the LSBS 2019 (60.2% rural SE and 57.1% urban). The SEUK 2019 data also shows rural SEs to be significantly (>.01) less likely to have recruited staff or increased their level of training during the past 12 months. This could be further indicative of the more static, less innovative characteristics of rural SEs and particularly

those taking charity and voluntary sector forms. With regard to business planning, almost two-fifths (38.7%) of LSBS SEs have businesses plans, with 30.8% keeping these up to date and with little difference between rural and urban SEs.

Table 9 examines use of external assistance during the year previous to LSBS 2019, although data is limited to England and Wales. Overall, only a small proportion of all SEs made use of external support, with a higher proportion of urban SEs (10.1% v. 7.8% rural) accessing external support. Rural SEs were significantly less likely to use external assistance for day-to-day information (>.1, but limited data size), but equally likely to use strategic and other variations of advice taking.

Table 9: Use of external support in the last year to 2019

LSBS SE (Row%)	Rural	Urban	N= (unweighted base)
Used external support	7.8	10.1	333
Information (day to day)	3.9*	10	90
Strategic advice	11	10.7	76
Both info and advice	9.2	11.9	88
Some other form of assistance	5.2	5.3	24

Source: LSBS 2019; * sig >.1 (but data numbers are small)

Note: Data limited to England and Wales

Turning to the types of support and advice, most frequently accessed services were for *business growth* (22.3%), *financial management* (16.7%), *access to finance* (16.6%) and *tax and national insurance* (10.5%). Rural SEs less frequently mentioned finance related needs, but more often needed assistance with *employment law and regulation*. None of these findings were statistically significant, however.

The limited and sometimes precarious financial base of many rural SEs was also a theme in the qualitative interviews, i.e. given their limited local consumer markets, lack of consistent core funding from public sector and other grant sources, and generally being undercapitalised. The focus of many support providers is therefore on helping SEs to take a more strategic approach to their longer-term sustainability, particularly through diversifying their sources of income and finding ways to 'monetise' their contributions: *"What we always help people to do is look for the value in what they do and who will value it, so what we find is a lot of social enterprises are not good at looking at how to monetise what they do."*

However, traditional non-profit organisations, often small charity CLGs, can be deterred by the language of business and enterprise: *"I think some of the stuff that comes out from government or from helper agencies can push them even further into that environment, because they just don't want to have a conversation about profit."* In such cases, support providers emphasised the importance of the social purpose and community context of the organisation while delivering 'soft business support' and encouragement to diversify sources of income as far as possible. The priority is often to achieve resilience and sustainability within a 'small and beautiful' niche, rather than commercial success and

business growth as conventionally understood¹² and to avoid judging against conventional measure of business success and making community-based SEs “feel like failures”, as a mainstream support provider might.

3.5.3 Access to finance

LSBS 2019 reveals rural SEs to be significantly (>.05) less likely to experience access to external finance as a problem, with only 6.1% of rural SEs compared to 15.0% of urban SEs reporting this. Similarly, the SEUK survey also finds rural SEs to be significantly (>.05) less constrained by access to finance (availability and cost of debt or equity finance). However, the LSBS data should be treated with caution given the small numbers of finance seekers and weighting issues. Table 10 shows that *only 6.4% of rural SEs had sought external finance* and all received at least some during 2019. A higher proportion of urban SEs sought external finance (9.5%), but 19% of these had not received any funding due mainly to a high proportion where a decision was still pending. That said, a higher proportion of urban SEs made several applications in the last year, suggesting greater financing needs and potentially more problems in accessing the finance requested. The median amount of funding sought by rural SEs in the last year was £14,497 which was 42% less than the median amount was sought by urban SEs (£24,798).

Table 10: External Financing, seeking and success 2019

LSBS SE (Row%)	Rural	Urban	N= (unweighted base)
Sought finance once	6.1*	5.2	80
Sought finance several times	8.3	19.8	54
Total seeking finance (% in row and % of column)	6.5% 6.4%	9.1% 9.5%	134
First time finance seeker	6.6	9.3	25
Obtained some finance	4.5	12.5	31
Success rate: valid response where decision recorded	100%	81%	40

Source: LSBS 2019; * sig >.1 (but data numbers are small)

Although the type of funding applied for is varied, bank lending and overdrafts predominate amongst urban SEs. Rural SEs apply for a greater diversity of funding types, with more applications for grants, equity and leasing finance. Although the data is very small and insignificant, it also shows a tendency for rural SEs to use alternatives to mainstream bank finance, particularly public grants and formal private funding. Rural SEs were also more likely to require external funding for working capital or cashflow purposes than their urban SE counterparts (79% compared to 55.5%) – again not a significant finding. However, rural SEs were significantly (>.05) more likely to seek investment finance and less likely (>.01) to seek acquisition finance.

In terms of the amount of external funding received, the median level was smaller for urban SEs (<£25k, compared to £25-49k for rural SE), but urban SE also had some much

¹² E.g. see Vickers and Lyon (2014).

larger funding amounts, including two cases of over £1m (but data is very limited). Rural SEs were no more likely to be discouraged borrowers than their urban SE counterparts. Around one in twelve SEs were potentially discouraged as they had a financing requirement that they did not apply for in 2019. This is also in line with findings for the mainstream SME population.

As shown by the LSBS 2019, only a small number of rural SEs (6.4%) had sought external finance compared to urban SEs (9.5%). However, the SEUK survey reveals a far higher level of external financing applications during the last 12 months, although meaningful comparison of the two surveys on this topic is not possible as the SEUK survey includes grants as well as rearrangements of existing finance. The SEUK survey shows that 37.4% were applying for finance with little difference between rural and urban SEs. The highest proportion sought was for specialist social funding (17.7%), followed by public grants (13.2%) and then mainstream debt finance (10.2%). Again, there are no significant rural-urban differences, but the SEUK data shows a tendency for rural SEs to seek public grants and avoid mainstream bank finance.

For growth-oriented rural SEs, the *Social Investment Tax Relief* (SITR) is a government scheme to incentivise private investors to provide debt or equity finance for qualifying asset-locked SEs.¹³ SITR appears underutilised with few positive examples of its take-up and application by rural SEs. The views of support providers were mixed as to its effectiveness and potential. A key limitation is that SITR excludes certain areas that are essential for SE such as property leasing and energy generation. SITR was due to end in 2022, but Plunkett Foundation and Grace Network have joined Big Society Capital's campaign and advocacy work to renew the SITR for another two years. Beneficiary SEs and advocates of SITR recognise the resources, knowledge, expertise introduced to the business beyond financial investment. Advocates of SITR suggest an angel investment structure in supporting SITR investment.

Finally, despite the importance of diversified income, reliance on multiple short-term grant income streams can bring its own problems. One interviewee pointed out how the complex output reporting requirements for many funding streams can constrain and even 'punish' SEs, particularly with respect to innovation and experimentation with new approaches to service design and delivery. It was further suggested that a new R&D fund was needed to support the creative experimentation and social innovation needed to address urgent societal and climate related challenges.

3.5.4 Access to and affordability of premises

The LSBS survey found 12.4% of rural SEs to have been constrained by access to premises issues, compared to only 8.5% of urban SEs. This may be due to a combination of the affordability of premises for small SEs with limited incomes and lack of suitable supply, although interviewees referred to there being 'many opportunities' in relation to the creative regeneration of heritage/derelict building stock in some localities.¹⁴

¹³ <https://www.gov.uk/government/collections/social-investment-tax-relief>

¹⁴ <https://www.gov.uk/government/news/right-to-regenerate-to-turn-derelict-buildings-into-homes-and-community-assets>

The Community Right to Buy was reported to work less well in England compared to Scotland where the community ownership model has greater influence against private development companies in property acquisition. One interviewee also identified a need for better integration of the community ownership model with the Local Authority Safe Neighbourhood Regeneration Agenda and public work loans process.

3.5.5 Partnerships, collaboration and replicating successful models

Participants saw great value in helping SEs overcome rural isolation by further supporting collaboration and pooling of knowledge, expertise and resources, such as through clustering around support hubs, whether physical spaces (such as the Grace Network in Gloucester) or virtual hubs and networking.

In terms of replicating successful models, there has been long-standing interest in *social franchising and licencing of models* as a potential mechanism for replication and scaling. However, there are few examples of successful social franchising in practice, and the transfer of formulaic models does not sit well with a key strength of rural SE, i.e. founders' motivations and ability to gain community buy-in and support. The key question then becomes how to better share experiences of 'what works' in a way that is sensitive to the autonomy of rural SEs and their diverse motivations and contexts.

"I think context is a lot of the issue, just because it worked somewhere else does not mean it will here or there! but models are useful and encourage people to think out of the box."

"Many SEs established themselves to address a hyperlocal need ... but they do provide a model for others to follow ... so perhaps support for sharing/mentoring and transplanting solutions is the growth activity. So replication, perhaps, rather than franchising [...] and transplantation of solutions."

"Learning exchanges and networking can provide opportunities for sharing good practice with the policy context recognising the value for enabling effective locally focused delivery."

The Covid pandemic and remote working was reported as having led to better access to some opportunities and experience of rural SEs being more included in business/policy forums, such as around training and round table discussions, whereas pre-Covid rural voices more often felt excluded. More work is needed, however, to encourage peer to peer learning opportunities and networking platforms that are accessible to rural SEs. Ideas and recommendations for forums to bring together SEs and other local actors around common issues and challenges included building links with farmers, who are often core to rural communities, such as around the development of sustainable local food systems:

"How we can develop perhaps a food ecosystem so that we can build on the really good things that are happening with the co-ops and the community gardens and the community shops, and see how we can strengthen those links through food."

Community Food Hubs in some localities already have a history of collaboration and social innovation to address market failures related to environmental externalities, food disadvantage and food health (Le Blanc et al., 2014; Curry, 2022).

Finally, as previously noted, although local authorities are key actors in supporting rural social enterprise most have experienced severe cuts to their budgets during an extended period of public sector austerity (Gray and Barford, 2018; Marmot, et al., 2020). However, the experience of Cumbria County Council presents one example of a local authority managing to sustain its support for rural SE despite considerable cuts to its budget over the past decade or so. A representative from Cumbria County Council highlighted the national Rural Growth Network which ran between 2012 and 2015 as a valuable learning experience on which they have continued to build. This involved £15 million allocated nationally by DEFRA to support Rural Growth Networks to deliver proposals aimed at helping rural areas overcome barriers to growth, such as poor infrastructure, scarcity of business premises and lack of business networks. Cumbria were successful in their bid and established a number of networks, including in relation to family business and social enterprise, which were reported as *“still going strong.”* Moreover, Cumbria County Council has been able to build on this experience to continue to support SE, and to access other sources of funding, notably the Spark Programme funded through the Transforming West Cumbria (TWC) Programme as part of Sellafield's SiX (Social impact Multiplied) Programme. Spark is a bespoke programme of support available to both existing social enterprises.¹⁵

3.5.6 Engaging beneficiaries and community members

The ability of rural SEs to engage with and draw support from their multiple stakeholders – employees, beneficiaries and the communities in which they are embedded is often seen as a key strength. Although SEUK 2019 (Table 7) shows about two-thirds of all SEs actively involve staff, about a third involve beneficiaries (30.6% rural v 34.3% urban) somewhat fewer report involving the community in decision-making, but with a higher proportion of rural SEs (28.7 v 24.5), although not significant.

The survey finding of lower levels of beneficiary and community involvement in decision-making amongst rural SEs than might be expected was reflected in our qualitative evidence, with some interviewees mentioning this as a potentially underacknowledged area of challenge.

“... a lot of that is around building a sense of family, building a sense of community. It's about why are people going to give that time, it's about having value for volunteers as well as employees, and employees who volunteer their time and how you can make that work together. And that's different expertise, I think, that social entrepreneurs perhaps take for granted but need supporting.”

“Within that rural context the link between community development and social enterprise is very strong [...] and so developing tools and resources that take on board those elements particularly around defining your community engagement networking has been really important.”

¹⁵ <https://www.cumbriafoundation.org/transforming-west-cumbria/spark/>

Some rural SEs and community businesses adopt legal forms which explicitly enable community ownership and control, with membership/shareholding and mechanisms for democratic governance, e.g. the CBS and CIC forms. Some participants felt this could be a particular area of difficulty, and previous research has revealed the challenges of implementing democratic forms, processes and practices.¹⁶ The feedback from participants in this study suggests a potential shortage of experienced support providers and accessible guidance and tools to help SEs with community engagement issues, including around the choice and implementation of appropriate structures and mechanisms for community ownership and governance. This issue would appear to take on particular significance in light of support providers' emphasis on the role of rural SEs in community development and the related need for inclusive decision-making. The UK government also appears to endorse 'bottom up' community engagement and the potential enabling role of SE in its Levelling Up policy agenda (Robinson, 2021).

¹⁶ For example, in the case of public service mutuals, see Sepulveda et al. (2020) and Vickers et al. (2022).

3.6 Lessons for practice and policy

3.6.1 Implications for support provision

The evidence of this study provides new insight into the characteristics, contributions and challenges facing rural SEs. The evidence confirms the importance of understanding the diversity of rural SEs in terms of their varied types, motivations and community contexts. Support providers highlighted a number of areas of challenge which can also be related to the conundrum facing all SEs of how to pragmatically balance their social missions and contributions to social value with the need to be commercially viable, and with some support providers' reporting a shortfall in the social entrepreneurial acumen and business leadership capabilities needed. Previous sections identified issues related to funding, diversification and growth, the need to strengthen collaboration and networks for knowledge sharing, and issues related to community engagement and inclusive governance.

3.6.2 Policy implications

We conclude by reflecting on the extent to which there can be said to be a coherent (eco)system of support for rural SE, taking account of the multiple actors and levels of support provision and governance involved across diverse rural and peri-urban contexts. First, it is important to note the limitations of the survey data, particularly in terms of the sample sizes (about a thousand cases), which makes it difficult to get significant responses at the level of the devolved nations or regions in order to compare SE contributions, challenges and support needs.

The notion of a 'joined up' ecosystem of support has gained much attention as a framework for understanding the role of different actors and policy interventions to support business, entrepreneurship and innovation, including with respect to social enterprise (e.g. Roy et al., 2015; Hazenberg et al., 2016; Roundy, 2017; Vickers et al., 2017a). Given the place-based nature of rural SE, it is particularly important to recognise the multiple levels and contexts involved, and how national level policy and interventions relate to and create effective synergies (or otherwise) in combination with the efforts of actors at regional economy and local community levels.

Interviewees and focus group participants were asked how they would assess the current policy and support system for rural SEs and what further changes might be needed. A common theme was of the support system for SE in general and for rural SE in particular continuing to be patchy and under-resourced. As expressed by one support provider, although many of the individual components are in place, *"it's like the whole is less than the sum of the parts"*. Although there are pockets of collaborative strength in some regions and localities, support providers in England were particularly concerned at the insufficiency of the policy and support system and the negative impact of public sector austerity on the capacities of local authorities and on community health and other areas of social provision.

"[T]here's many gaps across the country. There are models that work but perhaps there's not enough expertise and capacity to help people who want to start up a social

enterprise to guide them in terms of what models work effectively and people might get disillusioned by having to kind of reinvent the wheel every time."

Current public sector funding models were also perceived to be disadvantaging rural area, especially as European Union related funding is being replaced. It was also felt that the government's Levelling Up White paper had neglected rural areas and pockets of deprivation, being primarily focused on towns and urban areas.¹⁷

"One of the things we campaign for is a fair deal for rural communities, and we believe that in order to support the rural economies, there needs to be dedicated business support targeted at rural, along with dedicated rural funding streams so that support is available that is appropriate to rural circumstances. [...] The difficulty is that so many of the Government funding pots available under the banner of 'levelling up' must be bid for [...] and that relies on Councils having the resources to put bids together often in a short timescale. In addition, bids from urban areas naturally impact more people so the government gets better return on its investment simply in numbers terms...which can leave rural areas left behind."

The LSBS survey shows that only 5.3% of all SMEs are social enterprises compared to 9.9% in the least deprived rural areas. This demonstrates the need for support that can further encourage social entrepreneurship. However, focus group participants also noted the challenges of delivering public investments in rural areas where policies such as "Town Deals, and Future High Street Funds – are perceived as being "very urban centric". Furthermore, rural districts may not have the civil servants with capacity to write the bids, and therefore have to rely on consultants."

At the same time, and as noted in the introduction, there are some significant differences in the approaches to policy and support in Scotland compared to England. Scotland is recognized as having a much stronger strategic framework for SE enablement and support, although there are concerns that recently announced plans for reorganisation could weaken this support infrastructure.

4. Key conclusions and implications

Rural SEs, although variously defined and measured, comprise up to a third of the total UK social enterprise population and nearly one tenth of all SMEs found in rural areas. They tend to be very small, highly reliant on volunteers, and often women-led. They mainly serve local markets and often address rural community needs where there are shortfalls in both public and private sector service provision. Many perform well as micro/small enterprises, but key barriers relate to the operational costs of running a business and affordability of premise, and challenges of income generation particularly in smaller and more geographically remote communities.

A common theme from the interviews and focus group discussion was around the policy framework and supportive ecosystem for rural SE being patchy and fragmented across

¹⁷ See also NICRE (2021) and Leckie et al. (2022).

<https://www.rsnonline.org.uk/rural-lens-review-of-levelling-up-white-paper>

the UK, despite many individual components being in place and evidence of more 'joined up' support, pooling of resources and collaboration in some regions and localities. SEs are also less prevalent in deprived rural areas where they are most potentially needed. Support providers in England and Wales were particularly concerned at the insufficiency of the policy and support system and the negative impact of public sector austerity on the capacities of local authorities and on community health and other areas of social provision over more than a decade. There is also uncertainty around central government policy to address regional disparities across the UK and the potential role of rural SE within its Levelling Up agenda. It is recognised, however, that Scotland has a stronger strategic framework for enabling SE which has also been much more attuned to, and to a large extent driven by, the needs of its more remote rural communities.

While taking account of the diversity of rural SE types and their varied growth ambitions, the study identifies three key areas of strength which can inform future pragmatic support to raise aspirations and social-entrepreneurial capabilities across the rural SE sector:

- ***Income diversification and innovation*** - for resilience and sustainable growth;
- ***Pooling resources and knowledge of 'what works'*** - to overcome rural isolation and 'smallness' through peer-to-peer support, networks, partnerships and sustainable growth hubs;
- ***Engaging beneficiaries and community members*** - through inclusive decision-making for sustainable regeneration and democratic ownership.

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Annexes

Support provider interviewees

Organisation	Type / purpose
ACTion with Communities in Cumbria Penrith, Cumbria	Rural and community development charity
Alston Moor Alston, Cumbria	SEUK Place
Cwm Harry and Cultivate Newtown, Powys	Land Trust - To build community owned business
Firstport	Provision of business support and finance to rural and urban social enterprises. Connecting angel investors to social enterprises.
Grace Network Stroud, Gloucestershire	Business support and hyper-local SE incubator/hub
OSEP Oxford, Oxfordshire	To support social entrepreneurs, Social Enterprises, enterprising charities and purposeful business across Oxfordshire
Plunkett Foundation Woodstock, Oxfordshire	Support for community businesses across the UK
Real Ideas Cornwall and Southwest England	Support for start-ups, bus. development and SEUK Place
Rural Social Enterprise Hub Scotland Campbeltown, Argyll	Research and development activity on rural SE in Scotland
Social Enterprise Acumen CIC Houghton-Le-Spring, Northeast England	Capacity building support and advice to existing or would-be social entrepreneurs looking to develop their concept or grow their business.
Social Invest Scotland	Provision of business support and finance to rural and urban social enterprises.
South Ayrshire Community Transport	Rural based social enterprise, provision of transport service
Private Investor, Director of Green Angel Syndicate	

Focus Group participants

ACTion with Communities in Cumbria

Cultivating Communities

Cumbria Gov

Cwm Harry (+Cultivate)

Impact Hub Inverness

NICRE

OSEP

Plunkett Foundation

Power to Change

Rural Services Network

Rural Social Enterprise Hub

Social Enterprise Acumen CIC

Social Enterprise East of England (SEEE)

Social Enterprise Solutions

The Rural Business Group CIC

Independent social entrepreneur

Interview topic guide

1. Please briefly explain **your role and experience** of working with rural SE in your locality or sector.
2. The term social enterprise is a **broad category** and SEs can take a variety of organisational and legal forms. Please describe the **main types** of SEs that you have been involved in supporting. *Probe for experience and views of working with:*
 - **Core SEs and Community Businesses:** i.e. community/employee owned and legal forms with asset lock - CIC, CLG, CBS
 - **Broadly or self-defined SEs:** including purposive/mission-led enterprises with private sector forms
 - **Typical examples** – get details of different types of rural SE, services delivered etc
3. How would you assess SEs as **providers of services** to rural communities compared to other **private or public sector orgs**?
 - What difference (if any) is made by **community ownership and influence** on how SEs are run?
 - To what extent are SEs exhibiting genuine **employee and community involvement** above and beyond that of other organisations? How? If not, why not?
4. What are the most significant **challenges and barriers** to rural SEs sustainability and/or growth currently, in your understanding? *Probe for details including on different types of SE in relation to:*
 - Degree of rurality and rural remoteness – e.g. limits to growing customer base
 - Competition in the market
 - Winning public service contracts
 - Obtaining (debt or equity) finance
 - Obtaining grant funding
 - Skills and capability gaps – e.g. recruiting/retaining staff, managerial, marketing, financial etc
 - Access to other resources, e.g. ICT and superfast broadband
 - Regulatory barriers – *get specific examples*
 - Other (e.g. Brexit and Covid-19 – *but suggest don't prompt for these?*)
5. How are you **helping rural SEs address these challenges and respond to opportunities**? *Probe also for:*

- Awareness of what **other support providers** are doing?
6. Do you offer advice and information on **social investment tax relief (SITR)** to SEs you support? *Probe for experiences or reasons for non-use*
 7. Can you give any **good practice examples** of rural SEs overcoming barriers, growing or increasing their beneficial impacts, such as through:
 - Diversification into new services, products, markets
 - Innovation - product/service/other?
 - Collaboration and partnerships – how and who with?
 - Use of community support /volunteers
 8. **If yes to Q7:** do any of these good practice examples have potential to be applied/replicated for a wider rural SE group? If so, can you elaborate? If not, what are the challenges in doing so?
 9. How would you assess the current policy and support system for rural SEs? What further support or changes, if any, are needed to help rural SEs? *Probe for:*
 - Specific enterprise/ business support
 - Public service commissioning – specific changes?
 - Finance – type/availability/suitability
 - Changes to policy/ regulatory factors affecting the specific activity/ sector

Finally, to conclude:

10. Are there any other issues we have not covered which you would like to comment on?
11. Would you like us to send you a draft of the report section to comment on?
12. Finally, we will be holding a workshop / focus group towards the end of the project (convened by SEUK). This will involve a presentation and discussion of the emerging findings to help inform the final report and recommendations for policy and practice. Would you like us to send you an invitation to join this workshop?
Date: **Tues 29th March 2-4pm**

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