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# Do Urban Social Enterprises Benefit from Agglomeration? Evidence from Four UK Cities

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PINCH S. and SUNLEY P. Do urban social enterprises benefit from agglomeration? Evidence from four UK cities, *Regional Studies*. This paper examines the relevance of clustering theory for an understanding of the location of social enterprises (SEs). This is accomplished through an analysis of the extent to which managers of SEs in four major UK cities perceive themselves to benefit from agglomeration effects. The paper concentrates on two broad sets of agglomeration processes: the first is Marshallian externalities and Porter's cluster processes; and the second set includes urbanization economies and local institutional relationships. The study suggests the key benefits of agglomeration to SEs are that it enables access to demand for SE goods and services together with institutional support, funding and commercial contracts, as well as access to both formal and informal networks that can provide a wide range of knowledge and mutual support. It was, however, difficult to find direct evidence to support the importance of the Marshall–Arrow–Romer (MAR)-type spillovers related to labour market pooling, the efficient procurement of indirect inputs or localized knowledge spillovers.

Social enterprise    Agglomeration    Urban    Institutions    Networks

PINCH S. and SUNLEY P. 城市社会企业是否受益于聚集？英国四座城市的证据，*区域研究*。本文检视聚集理论之于理解社会企业（SEs）区位的適切性，并透过分析英国四座主要城市的社会企业经理认为自身受益于聚集效应的程度完成之。本文聚焦两组广泛的聚集效应：第一组是马歇尔外部性与波特的集群过程；第二组则包含城市化经济与地方制度关系。本研究主张，聚集之于社会企业的主要效益在于，它透过制度支持、资金与商业契约，以及可提供广泛知识与相互支援的正式及非正式网络之途径，同时提供社会企业财货与服务需求的管道。但我们却难以发现直接的证据，能够支持与劳动市场聚集、间接投入的有效采购或在地化的知识外溢有关的马歇尔—阿洛—罗谟（MAR）外溢类型的重要性。

社会企业    聚集    城市    制度    网络

PINCH S. et SUNLEY P. Les entreprises sociales urbaines, est-ce qu'elles tirent aucun profit du processus d'agglomération? Des preuves provenant de quatre grandes villes situées au R-U, *Regional Studies*. Cet article examine l'importance de la théorie des clusters pour comprendre la localisation des entreprises sociales. On y réussit en analysant dans quelle mesure les managers des entreprises sociales situées dans quatre grandes villes de première importance au R-U considèrent qu'ils tirent un profit des effets d'agglomération. L'article se concentre sur deux grands ensembles de processus de développement des agglomérations: le premier comprend les externalités marshalliennes et le clustering d'après Porter; et le deuxième comporte des économies d'urbanisation et des rapports institutionnels locaux. L'étude laisse supposer que les principaux avantages de l'agglomération pour les entreprises sociales sont l'accès à la demande des biens et des services des entreprises sociales conjointement avec le soutien institutionnel, le financement et les contrats commerciaux, ainsi que l'accès aux réseaux formels et informels qui fournissent une large gamme de connaissance et de soutien réciproque. Cependant, il s'est avéré difficile de trouver des preuves directes pour confirmer l'importance des retombées de type MAR (Marshall–Arrow–Romer) associées à la mise en commun de la main-d'oeuvre, de l'approvisionnement efficace des entrées indirectes ou des retombées de connaissance localisées.

Entreprise sociale    Agglomération    Urbain    Institutions    Réseaux

PINCH S. und SUNLEY P. Profitieren soziale Unternehmen in Städten von einer Agglomeration? Belege aus vier britischen Städten, *Regional Studies*. In diesem Beitrag untersuchen wir die Relevanz der Clustering-Theorie für das Verständnis des Standorts von sozialen Unternehmen. Hierfür analysieren wir den Umfang, in dem die Geschäftsführer von sozialen Unternehmen in vier britischen Großstädten ihrer eigenen Einschätzung nach von Agglomerationseffekten profitieren. Im Mittelpunkt des Beitrags stehen zwei generelle Gruppen von Agglomerationsprozessen: Die erste besteht aus marshallischen Externalitäten und Cluster-Prozessen nach Porter; die zweite umfasst Urbanisierungsökonomien und lokale institutionelle Beziehungen. Die

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Studie legt den Schluss nahe, dass der wichtigste Nutzen der Agglomeration für soziale Unternehmen darin liegt, dass sie den Zugang zur Nachfrage nach den Gütern und Dienstleistungen sozialer Unternehmen sowie institutionelle Unterstützung, Finanzierung und kommerzielle Verträge ermöglicht; ebenso verschafft sie Zugang zu formellen und informellen Netzwerken, die ein breites Spektrum von Wissen und gegenseitiger Unterstützung bieten können. Allerdings war es schwierig, unmittelbare Belege für die Wichtigkeit von Übertragungseffekten des Typs Marshall–Arrow–Romer (MAR) hinsichtlich einer Poolung des Arbeitsmarkts, der effizienten Beschaffung von indirekten Inputs oder lokalisierter Wissensübertragungen zu finden.

Soziales Unternehmen    Agglomeration    Städtische Gebiete    Institutionen    Netzwerke

PINCH S. y SUNLEY P. ¿Se benefician las empresas sociales urbanas de la aglomeración? Evidencia de cuatro ciudades británicas, *Regional Studies*. En este artículo estudiamos la relevancia de la teoría de aglomeración para poder entender la ubicación de empresas sociales. Para ello analizamos en qué medida creen los directores de empresas sociales en cuatro ciudades británicas principales que se benefician de los efectos de la aglomeración. En el artículo prestamos atención a dos amplios grupos de procesos de aglomeración: el primero consiste en los efectos externos marshallianos y los procesos de aglomeración de Porter; y el segundo abarca las economías de urbanización y las relaciones institucionales locales. En el estudio sugerimos que los beneficios más importantes de la aglomeración para las empresas sociales son que facilitan el acceso a la demanda para los bienes y servicios de tales empresas junto con apoyo institucional, financiación y contratos comerciales, así como el acceso a las redes formales e informales que pueden aportar una amplia gama de conocimientos y apoyo mutuo. Sin embargo, fue difícil encontrar pruebas directas para respaldar la importancia de los efectos indirectos tipo Marshall–Arrow–Romer (MAR) en relación con la concentración del mercado laboral, las adquisiciones eficientes de aportaciones indirectas o los efectos indirectos de conocimientos localizados.

Empresa social    Aglomeración    Urbano    Instituciones    Redes

JEL classifications: L31, O35, R11

## INTRODUCTION

Social enterprise (SE) – usually defined broadly as firms that trade for a social, environmental or community purpose, rather than serving the needs of shareholders (DEPARTMENT OF TRADE AND INDUSTRY (DTI), 2002) – has in recent years gained widespread support from all sides of the political spectrum, in both Europe and the United States (ASTHANA, 2010). Nevertheless, there is widespread controversy surrounding the capacity of SEs to meet growing social needs, especially in an age of severe fiscal restraint. Amongst the many concerns surrounding SE is an acknowledgement that the incidence of such organizations shows wide variations from place to place. Since they tend to serve local markets (SEELOS *et al.*, 2010; SOCIAL ENTERPRISE UK, 2011) there is added concern over whether they are located in the areas of greatest need. In the context of these debates there has been growing interest in the geography of SE and the degree to which local clustering and agglomeration are beneficial to SEs. According to PEATTIE and MORLEY (2008) local networks are crucial to the support systems of SEs. HYNES (2009) also argues that local networks may be vitally important to SEs as they may help to assemble different types of resources including volunteer labour. Others have surmised that local spin-off processes may lead to the appearance of local clusters or agglomerations of SEs (MULGAN *et al.*, 2006). However, as MUNOZ (2010) notes, still very little is known about how place shapes the development of SEs and how important local relationships are to most SEs. There is as yet no clear picture of the significance of clustering and proximity to SE development.

One of the reasons for the continuing uncertainty about the relationships between SEs and their location is because of the lack of reliable evidence. There is anecdotal evidence of benefits from clustering and repeated stories of ‘SE Silicon Valleys’ emerging in particular places (MULGAN *et al.*, 2006; BACON *et al.*, 2008) but there is no statistically reliable data source in the UK to enable one to make firm comparisons at the sub-regional scale (the regional scale is somewhat different – see BUCKINGHAM *et al.*, 2012). Not only does SE come in a wide variety of legal forms, but also the definition of what constitutes an SE within these categories is highly contested, as various interest groups petition for support for their own organizational constituencies (LYON and SEPULVEDA, 2009). Ultimately, it is not the legal form of an organization but what it does with its profits that determines whether it is an SE and this is often difficult to determine from published data (BUSINESS LINK, 2009). Thus it is impossible to assess unequivocally at a national scale whether SEs are clustered or relatively dispersed. The strategy in this paper is, therefore, rather different: it is to look at SEs in a sample of UK urban areas and to evaluate whether they perceive themselves to be benefitting from being part of a local agglomeration of SEs or whether their attitudes to their location are dominated by other considerations.

The paper is structured as follows. The first part considers the thorny issue of clustering and what can be gleaned from these extensive debates that is of relevance for SEs. The paper distils the main advantages and disadvantages of clustering so that it can be evaluated to what extent these factors are present in this study of urban

SEs. After outlining the methodology and the findings from a detailed study of SEs in four British cities, the implications of the analysis for the development of SE are considered.

### WHAT TYPE OF CLUSTER? PECUNIARY EXTERNALITIES OR KNOWLEDGE EXCHANGE?

There are several ways in which clustering may conceivably be beneficial to SEs. However clustering itself is an ambiguous and slippery notion that subsumes a wide range of types of agglomeration and process (MARKUSEN, 1999; LAGENDIJK, 2003; MARTIN and SUNLEY, 2003; MCCANN and FOLTA, 2008; SPENCER *et al.*, 2010; POTTER and WATTS, 2012). Most definitions of clusters now start with Michael Porter's (PORTER, 1998) view that clusters are proximate collections of firms that cooperate but also compete, although there remains some uncertainty about the geographical scale at which clusters should be identified. Porter argues that the competitiveness of firms is shaped by four factors (firms strategy and rivalry; factor input conditions; demand conditions; and related and supporting industries) and that clusters intensify the interaction between these factors in a diamond-like pattern. He then drew heavily on Alfred Marshall's (MARSHALL, 1920) three types of agglomeration economy to argue that clusters offer three sets of benefits to firms. First, he argued that local pools of supporting and related industries might lower costs and raise productivity. Secondly, he argued that local exchanges of knowledge might act to diffuse innovations and raise productivity. And thirdly, he also suggested that clustering might encourage spin-off processes. All three of these possible benefits may apply to SEs: their supporting industries may be concentrated in particular agglomerations; they may benefit from local knowledge exchanges; and social entrepreneurs may find it easier to launch new ventures in areas where the density of SEs is already high. However, new economic geography models have stressed the importance of pecuniary externalities and the ways in which a market becomes cumulative as firms buy from each other (KRUGMAN, 1991). It seems unlikely that such market effects would be significant for SEs, although it is possible that they may prefer to buy from each other. In addition, business research has identified another type of cluster that is primarily market based. Clustering of some retail outlets may attract customers to particular locations (MCCANN and FOLTA, 2009). Again, it is conceivable that this may apply to some types of SE.

In contrast to this market-driven agglomeration, much work in economic geography has focused on the benefits of clustering in terms of knowledge sharing (e.g. BATHELDT *et al.*, 2004; MALMBERG and MASKELL, 2006). According to this view, the crucial

advantage of clusters is that they allow the sharing of tacit knowledge through face-to-face meetings and this raises the innovativeness of constituent firms. Typically, this interpretation argues that labour mobility allows embodied knowledge to circulate through the cluster. This may be applicable to SEs where the local transfer of knowledge through mobility of people may well be an important resource. STORPER and VENABLES (2004) suggest that the crucial benefit of urban agglomerations is their ability to provide a 'local buzz' consisting of several psychological elements. In essence, buzz excites and motivates actors and thereby raises their performance. However, there is much debate concerning the relationships between spatial and cognitive proximity and their links with innovation (e.g. BOSCHMA and FRENKEN, 2010; HUBER, 2012). Not only are there differing theoretical interpretations of these issues but also seemingly contradictory evidence. TRIPPL *et al.* (2009), for example, show that the character of knowledge flows is largely dependent upon the nature of innovation. Knowledge-based views of clustering have also been closely linked to institutional accounts that suggest that proximate local institutions allow collective learning. AMIN and THRIFT (1992) emphasize the importance of institutional thickness or the density of supporting and intermediary institutions. This may be highly relevant to SEs, but it may be the type of institution that is important, as some have argued that a strong and directive local state may 'crowd out' the local social economy (AMIN *et al.*, 2002).

Of course, none of these views of the benefits of clustering can be accepted uncritically. In many cases the benefits of clusters have been justified with reference to selected successful examples only. Often cluster advocates have overlooked the costs associated with clustering, exaggerated the homogeneity of cluster firms and said little about how processes change through time (TER WAL and BOSCHMA, 2011). In some cases clusters may lead to higher inflation, excessive competition and the leaking of valuable knowledge to local rivals. In other cases clusters may be associated with a growing conformity to groupthink and hence to lock-in and a loss of innovativeness (GRABHER, 2007). SEs tend to operate in many different subsectors, so it might be surmised at the outset that they are unlikely to be subject to the same type of collective mindset or cognitive lock-in that affects an agglomeration of closely related firms clinging to a particular technological trajectory. However, there may well be aspects of the local environment that lead to common ways of thinking and working that affect SEs when it comes to applying for contracts or grants and these might affect their economic performance. As with all these advantages and limitations ascribed to proximate firms, there are many unknowns in the case of SEs, and it is difficult a priori to speculate upon which of these concepts and processes are most applicable to them. However, these issues may be distilled into a number of key questions and these

formed the basis for the examination of SEs: the relevance of Marshall–Arrow–Romer (MAR)–type externalities (skilled labour, related and supporting industries, and knowledge spillovers); the role of Porterian externalities and inter-firm competition; the presence of Jacobs’ externalities and related variety; the efficacy of market demand; the importance of institutional relationships; and finally the role of trust.

## RESEARCH DESIGN AND METHODOLOGY

To explore the potential benefits of agglomeration of SEs, in-depth interviews with managers of SEs and their support agencies in four cities in the UK were carried out: Birmingham, Liverpool, the London Borough of Newham and Southampton. These areas were chosen partly to examine large and secondary cities in different regions of the UK and partly to encompass a diverse range of institutional contexts. The complex issue of scale always looms over cluster debates: here the paper is concerned with the interactions and activities of the SEs within their immediate city–regions (i.e. the urban agglomeration of which they were a part together with its immediate commuting hinterland). Where relevant, wider regional or national levels of influence are denoted. In the case of Newham, this paper also distinguishes between local borough-wide effects and wider London-based contacts. Birmingham presented an interesting case study since it has a dense agglomeration of support institutions designed to promote SE. It is especially significant as a centre for community development financial institutions (CDFIs) and the disbanded West Midlands Regional Development Agency – Advantage West Midlands – is reputed to have had one of the best track records in supporting various small loan and micro-finance schemes. Liverpool was a compelling case study because the 2007 Index of Multiple Deprivation (IMD) indicates that it is the poorest city in the country and yet it has gained a reputation of a being a dynamic environment for SE.<sup>1</sup> The authors were therefore especially interested in the role of state and institutional support in fostering this apparent success. London is also a city with extensive SE support networks; within the city Newham was chosen because it is a borough with especially high needs (ranking 160th on the 2007 IMD). Newham is distinctive in having a longstanding Labour-dominated local authority and it was interesting to see if this had served to ‘crowd out’ SEs, as observed elsewhere (AMIN *et al.*, 2002). The final case study, Southampton, enabled the role of SEs in a smaller southern city that lacks the scale and intensity of needs in some of the UK’s largest conurbations (it ranks 58th on the IMD scale) but still faces significant social issues to be gauged. However, Southampton is also commonly regarded as lacking the civic *esprit de corps* of many northern cities and often decries its lack

of state aid (HATHERLEY, 2011). Therefore, this paper wanted to examine how SEs fared in a more affluent southern city with a relative lack of public assistance.

Within each of these cities, the sample of SEs for intensive study was selected in a ‘purposive’ manner through scrutiny of the web, via publicity material and via ‘snowballing’ through personal contacts. Discussions about SE are often bedevilled by confusions over definitions; the survey therefore attempted to incorporate all the major legal structures within which SE could be undertaken by adopting the widely acknowledged Department of Trade and Industry (DTI) framework (DTI, 2002). In each location interviews were conducted with representatives (usually chief executive officers – CEOs) of 10 SEs. The interviews sought to probe the factors that underlie the development of agglomerations of SEs in the area. The questions were grouped according to three themes: the origins and history of the enterprise; its financial position and constraints on its growth; and its relations with other organizations and the support delivered by local government. Under this third theme, questions were asked about relations and contacts with other SEs, involvement in SE networks (both formal and informal), relations with private sector firms, and government and clients. Under each questions were asked about the form of the relationship, the key motivations and benefits, and its geographical scale. The paper did not seek to quantify responses, so there may be inconsistencies in the evaluation arising from the interpretations of both interviewees and interviewees, but this approach nevertheless revealed rich detail about the perceptions of relationships and their value, from which common themes, ambiguities and attitudes could be distilled. This paper is not seeking to provide a comparative analysis between cities; instead, it focuses on shared and frequent responses to issues of clustering and agglomeration. A conclusive judgement about the representativeness of the sample is impossible because of the difficulties in getting a definitive sampling frame, but the sample of SEs broadly reflects the diversity that is to be found within the sector in the UK as revealed by a series of national scale surveys (e.g. IFF RESEARCH, 2005; OFFICE OF THE THIRD SECTOR (OTS), 2009).<sup>2</sup>

## MARSHALLIAN EXTERNALITIES AND CLUSTERING PROCESSES

The comments of the SE managers served to confirm the difficulties of judging the strength of SE in a particular locality, for they were typically unsure how their areas compared with others in the country. However, the managers were typically clear about the advantages and limitations of their locations. The complex issue of scale always looms over clustering debates: of most concern here was the city–region

level. Where relevant, a wider regional and national level of influence is denoted.

#### *MAR-type externalities*

A key set of advantages for agglomeration are those externalities, initially noted by MARSHALL (1920) and later developed by Arrow and Romer (the MAR type), that relate to the concentrations of firms in the *same* industrial sector. There is a complication in applying these notions to SE since although they may be conceived as being in the same sector due to the underlying issues they confront, at the same time they deal with a number of different market subsectors such as education, manufacturing, recycling and health promotion. However, the situation is perhaps not totally different from that which typifies some high-technology agglomerations where companies may deal in different sub-markets. The paper now evaluates three key MAR externalities in turn.

#### *MAR-type 1 externality: skilled labour*

A key factor in MARSHALL's (1920) and PORTER's (1998) praise of clustering is the availability of a local pool of skilled labour. At first glance this factor would *not* seem to be especially relevant to the study, for none of the interviewees cited the importance of skilled labour as a key factor affecting the location of their enterprise. Indeed, since a significant minority (about a fifth) of the SEs were involved in getting people back into employment, the existence of a pool of unemployed relatively *unskilled* labour was a far more important factor. The interviews found that the availability of a pool of willing volunteers was central to many SEs. Thus, one SE manager of a recycling company wearily commented that with the enduring recession there would be no shortage of volunteers. However, it became clear from the interviews that issues of skill and competence were central to the dynamism of SEs through the medium of leadership and management (LEADBEATER, 1997). Although one would not wish to endorse the myth of the 'heroic' isolated social entrepreneur (PEATTIE and MORLEY, 2008), it was clear that dedicated individuals were central to the viability of many of the SEs. Some of these managers had been drawn to SE after difficult personal circumstances such as redundancy and illness, whilst others had been inspired through educational experiences or through networking. One of the SEs had expanded because of a suggestion from two university students working in the vacation and two other SEs had arisen directly from research undertaken for undergraduate dissertations. Many SE employees were quite skilled and working at below-market rates. Another manager in Southampton illustrated this fact:

It is run as an ethical company, so I think that helps, which also attracts people that are extremely clever and extremely

bright, which are normally in a private company you wouldn't be able to pay for. Certainly the guys we've got here, they are all post graduate level in our team, and you wouldn't understand what they're saying, put it that way

A willingness to be involved in SE was therefore as important as skill. The locational decisions of peripatetic social entrepreneurs who are drawn to certain environments and the nature of the local milieu that fosters a pool of people with the skills and commitment to become involved in SE merit further attention (AMIN *et al.*, 2002).

#### *MAR-type 2 externality: related and supporting industries*

A second type of MAR externality refers to the efficient provision of intermediate inputs from specialist suppliers, distributors and business services (SCOTT, 1988). It was difficult to evaluate from the responses whether local linkages with related industries resulted in scale economies and pecuniary advantages. Certainly, relatively few of the managers cited this a major advantage of their location. Many SEs were operating at too small a scale to take advantage of bulk discounts, but they sometimes secured goods and services (such as conference facilities) at favourable terms because their suppliers wished to be associated with their social mission. One manager noted that, as a large SE engaged in recycling, he was able to achieve scale economies with a couple of suppliers, but these were *outside* the local area. However, he felt that SEs should instead be giving greater priority to local suppliers. Thus most local supplier advantages seemed to involve donations of equipment, buildings and consumables. Although the SE managers did not often mention the reduction of transport costs explicitly, it can be inferred from the responses that proximity to a number of other actors – firms, suppliers and clients – *did* matter to some SEs.

#### *MAR-type 3 externality: knowledge spillovers*

A third type of MAR spillover involves localized learning and knowledge transfer, but there has been extensive debate over just what this entails (BRESCHI and LISSONI, 2001). A commonly cited example of a localized knowledge spillover (LKS) is research undertaken within either a firm, research institute or university that is widely available to all the firms in a region as a public good (JAFPE, 1989). However, localized knowledge has been interpreted in much wider terms, especially that which is tacit in character rather than codifiable, but others dispute the equation of geographical scale with any particular type of knowledge diffusion (AMIN and COHENDET, 2004).

It is notoriously difficult to trace informal knowledge acquisition – hence the considerable controversy over its potency in clusters (e.g. HUBER, 2012; TRIPPL *et al.*,

2009). In the sample, it was quite common for SE managers to cite the importance of learning from their fellow SEs. However, much of this knowledge acquisition was intentional and through *formal* organized conferences and meetings and through organized direct contact. As one manager from Newham commented: 'We enjoy going to the conferences because you can actually get to see people and pick up all the ideas.' One manager in Birmingham said of a local SE network that 'you have to take their knowledge and think how you apply it to the market. So we go for learning'. Another claimed there was a wealth of information in emails and on websites, but he lacked the time to evaluate it, so formal networking events helped him to judge the significance of these data. Important knowledge was also provided by SE support agencies as a form of widely available public good. This knowledge was seen as important because there was a general feeling that SEs often lacked crucial information about how to run a business successfully. Whilst there is less evidence of a clear knowledge trajectory that might be tracked through rumour (as exists in the case of some high-technology agglomerations), there were clearly important aspects of knowledge essential to SEs, most especially insights into contracts and sources of funding and support. Such knowledge was especially important in the period of the study since contracting and funding arrangements were in a considerable state of flux. For example, some state agencies were seeking to allocate larger contracts and these changes could marginalize SEs who were used to serving very small local markets. Consequently, some of the SEs were seeking to make considerable changes in their operating procedures that required considerable mentoring and advice from support organizations.

Much of this learning was 'local' in character in the sense of coming from within the region within which the cities were located. Hence the managers who participated in SE networks generally claimed they found the regional ones more useful than participation in national ones. However, as with all the findings, there were exceptions: some of the inspiration for the SEs came from outside the local region and some respondents were active members of national organizations (one manager claimed national bodies gave a 'strategic overview'). Hence it was not unusual for the SEs to adopt a business model and mission that had first been established elsewhere. It should also be noted that although a majority claimed networking was a useful way of gaining information, a significant minority (about a fifth) felt they were 'a waste of time'. These tended to be the more established and successful SEs who were more interested in commercially useful contacts. Some were reluctant to participate in such networks for fear of giving away valuable information. It was also clear that many of the SEs were struggling to survive and their managers were highly pressured, lacking the time to attend conferences.

There were some issues that remain unresolved in the data, however, and these will require further research. For example, it could not be perceived in any quantifiable manner from the data whether these conference contacts were of the 'strong' character (i.e. through previously established linkages) or of the 'weak' variety (i.e. through meetings with strangers), but it seemed that both types of contact were in evidence. It was also much harder to glean evidence of knowledge acquisition through unintentional informal knowledge spillovers, although there were some indications that managers obtained information through informal meetings and gossip as well as at formal meetings. Given the relatively underdeveloped nature of the sector, the 'proximity paradox' could also not be detected (BOSCHMA and FRENKEN, 2010), whereby too much contact leads to 'lock-in' and a lack of innovation.

To summarize this section, there was certainly evidence of the value of knowledge acquisition in the local area being a major advantage to the sample of SEs. This knowledge was acquired through both formal and informal networking and on a traded and untraded basis. However, it remains questionable whether such knowledge constitutes to an MAR-type of unintentional knowledge spillover.

#### *Porterian externalities: inter-firm competition*

Competition and rivalry between firms in the same sector are key factors in PORTER's (1998) update of clustering theory. He argues that geographically proximate firms are spurred to become more productive and that intense competition leads to enhanced innovation and efficiency. Given that the SE sector might be seen as one imbued with an ethos of mutualism and cooperation, one of the big surprises in this study was the degree to which the SEs felt they were under pressure from competitors. Indeed, there was a widespread feeling in the interviews that with more entrants the degree of competition in the SE sector was increasing. A good illustration of this lies in the sentiments expressed by an SE in Newham (referring to other boroughs he worked with in London):

whenever we work with Boroughs like that, they come into us and they say, 'Come on, we're a team, we're all in this together, so what we're going to do, we want to share best practices,' and I just say, 'You're joking, in the end what I do is sensitive in a competitive manner and the last people I'd share it with is your other providers.' You know, they're the last people I would share it with. And I often have to say to these people, 'Just because we're all third sector companies, doesn't mean to say we're friends.' We're not and we can't afford to be friends. At the end of the day, we are serious competitors for each other.

Similarly some of the managers claimed they were reluctant to join support networks for fear of giving

away secrets about their operations to rivals. However, a significant minority (over two-fifths) felt that this rivalry was a good thing in that it would eliminate inefficient SEs and that there was in general too much 'feather bedding' of firms in the sector. Whether the competition that existed between the SEs was a force for efficiency needs further study. SEs were certainly being spurred to increase their market reach, but at times competition appeared to be more of an overarching threat that could undermine the viability of rather fragile organizations.

To keep matters in perspective, note that, generally speaking, the SEs were operating in different subsectors and were not directly in competition with each other. Overall, the SE sector appears to be characterized by an atmosphere of mutual support and encouragement. Indeed, this is arguably one reason for their grouping in cities. For example, one training SE had established a 'peer review forum' that involved visits to each other's premises. The following quotation gives a good indication of the atmosphere in some SE subsectors:

I mean this has been going for years; in fact we set it up way back, [...] and there's a history in Birmingham of people not competing like that. I mean you'll get the new people come in and they'll actually come and pinch all the information and then go away, and everybody goes, 'Stop doing that.' That's not how we work here. We work co-operatively. We try to share, particularly young people, if there's a young person that would benefit from going to their programme we would do that, rather than actually to say, 'Go away, we can't help you.' And that history of working together and not competing, there's enough people out there for goodness sake, and that's what we keep saying. 'Don't compete. There's enough people.' And we will enable each other. We'll actually borrow expertise from each other as well, but that's taken years to grow.

#### *Spinoffs and spinouts*

While PORTER (1998) argues that clusters facilitate firm spinoffs which then reinforce externalities, a contrary view is that spin-offs from key firms create clusters, but the constituent firms do not benefit from local externalities (KLEPPER, 2010). The study certainly provided substantial evidence of new SE firm creation through spin-offs, and by spinouts from charities and the public sector. For example, some charities had spun out a series of trading divisions with the aim of reducing financial vulnerability. There appeared to be an important evolutionary process at work here: those areas with a strong tradition of philanthropy and charitable infrastructure would seem to be more likely to encourage such spin-offs. In addition, some of the SEs had spun out from the public (or quasi-public) sector providing services that had previously been undertaken in-house by the National Health Service (NHS), in universities or by local authorities.

Evolutionary economic geography has argued that spin-off firms are typically more successful as they inherit learnt capabilities from their parent firms (e.g. WENTING, 2008). In this vein, a key theme in the interviews was the importance of learning from previous experience, sometimes in failed organizations. The following quote from Liverpool was not untypical:

[Anonymised] was getting a lot of opportunities and using a lot of freelancers, so we thought, let's recreate what we had at the university, what was, unfortunately, ruined by academics; it was mismanaged if you like, 'cause it met all of its targets but, for some reason, they took their eye of the ball and didn't bother putting in new bids for funding; that's why we were made redundant. So we decided to recreate that on a smaller scale, and learn from the mistakes they made.

Some of these SE managers used their experience in state state-funded agencies to secure contracts. Other managers had experience of the private sector and were attempting to utilize these skills to develop close relationships with private firms. Many of the interviewees showed an experimental willingness to try new things, gaining knowledge with each new successful or failed venture.

What might be called the 'spin-off thesis' would therefore seem to have some validity in the context of UK SEs, but it should be noted that learning from experience was not just a characteristic of managers in spin-outs and spin-offs. This thesis also overlooks the possibility of various alternative or complimentary urban externality and institutional effects.

### LEARNING, INSTITUTIONS AND RELATIONAL MARKETS

While the research found only limited evidence of the classic MAR-type agglomeration externalities, this did not mean that location was trivial to most of the SEs. In order to understand this, relevant urbanization economies and the significance of the local infrastructural architecture to SE markets were also investigated.

#### *Jacobs' externalities*

Another local externality, more often linked to an urban location rather than a specialized cluster, is the *cross-sectoral* type associated with having industries in a diverse range of industries, named after Jane Jacobs (JACOBS, 1969) – sometimes termed unrelated variety (FRENKEN *et al.*, 2007). The basic argument is that ideas developed in one industry may be applied to others in an innovative way, a notion that accords with much recent thinking on recombinant innovation and creativity (SAYER, 2012). However, as with MAR knowledge spillovers, the precise mechanisms at work here, and their relative importance, are open to debate (DESROCHERS and LEPPALA, 2011; ERIKSSON, 2011).



As with MAR-type externalities, evaluating Jacobs'-type externalities in the case of SEs is complicated, because although they are often in different market niches, they typically experience similar issues to other SEs and can be envisaged as a subsector. Nevertheless, the interviewees provided substantial evidence of inter-sectoral firm learning from other local *private sector* firms as well as other SEs operating in slightly different sectors. Some of this learning was generic, involving business skills such as marketing and some related to specific business ideas. It was clear that some SE managers were continually on the 'look out' for ideas they could translate into their existing organization. A significant minority of SEs sought to orientate themselves towards private sector firms for two main reasons: first, they were not direct competitors; and second, they were regarded as being repositories of good business and knowledge skills. One SE manager, for example, noted that private sector firms had been especially important to his enterprise in giving information about distribution. However, it was clear that the information exchange was not all one way. For example, one SE manager felt that his firm taught private sector companies about corporate social responsibility and how to bid for contracts with added social value. The majority of these inter-sectoral links were local and the interviews indicated considerable advantages for SEs from being in dynamic and diverse urban economies. Whether most of these links are Jacobs' externalities is doubtful. Most are better described as examples of related variety in which there are exchanges between actors who share a certain degree of cognitive proximity (FRENKEN *et al.*, 2007). Interestingly in this case, this proximity could be either with other SEs in similar sectors or with private sector firms in related markets and services.

#### Market demand

Jacobs' externalities are, of course, not the only form of possible urbanization economies. A key element in many agglomeration/clustering models is city size and the attractive pull of the market (GORDON and MCCANN, 2000). Big cities can provide a large, localized, demand for goods and services and, perhaps more importantly in an age of rapidly changing fashions, sophisticated consumers who can aid product and service development.

The interviews suggested that big cities provide a source of 'demand' for SE, but not in the conventional sense of raw spending power or savvy consumers. Instead, it is both the depth and the complexity of social problems in cities that provide a milieu of 'need/demand' to which SEs can respond. As one SE manager in London commented:

We get a lot of complex problems here and social enterprise is a model which will rise to meet the need where

public services are not doing it and where there's a gap [...] we get a lot of special interest groups in terms of working with, refugees, working with people from different ethnic background, religious groups, all sorts.

Interviewees in Birmingham, for example, claimed that SEs thrived in the city because of the sheer range and depth of its social problems and similar sentiments were expressed about Liverpool and London. Some of the SEs had received special funding because they were located in especially deprived wards. One manager commented that funders like to 'pigeon-hole' you in terms of location and this could be critical for getting financial support. He had known some organizations go under because they were in the wrong place. As always, there were a few exceptions. A minority felt that where they were located made no difference; it was the quality of their SE that was paramount and they could have flourished anywhere.

SEs can address these demands, either by providing services for other agencies (typically funded in some way by the state or its proxies) or by creating new markets that can affect the needs of deprived populations. However, a key finding of the study is that the markets for SE are typically unstable and precarious, especially an age characterized by fiscal austerity. Hence, those SEs providing services such as local cafes or community services directly to paying end consumers had to be especially wary of growing financial hardship. It might be surmised in this context that the public sector could be a source of stability. However, those SEs contracting to state agencies, or dependent upon grant funding, were also operating in an uncertain environment of imminent cuts. The scale of the market is therefore undoubtedly a factor leading to agglomeration of SEs in major cities, but there is no automatic translation of demand into provision. Markets need to be constructed through the operations of various individual actors, organizations, intermediaries and institutions. Various factors of the 'supply'-side factors will therefore affect how these demand/needs are met.

The reason for this is that, as noted above, SEs tend to serve relatively local markets (SOCIAL ENTERPRISE UK, 2011). In the study, for example, the vast majority of SEs provided services for local state agencies such as local authorities, Primary Care Trusts (PCTs), and regional branches of the Department for Work and Pensions (DWP), or else provided local community-based services. Only a very small minority traded goods and services on a national scale, and even then they also usually provided a local service in terms of training for a local deprived community. Few of the SEs sought geographical expansion as a longer-term objective. Many of the SEs claimed they would be unwilling to move beyond serving their local communities because this would involve additional risks and they might lose their key asset: detailed local knowledge of the commu-

nities they serve. The result was a dense ecology of localized firm interrelationships and partnerships. Thus many of the SEs cooperated with other local SEs in the delivery of services, with charities and with private sector companies. SEs occasionally helped each other out in times of difficulty – such as with the provision of transport or temporary office or warehouse space. Some SEs were part of a complex network of inter-related operating units within an overarching charity from which they had originally evolved. They often relied on these charitable connections for support and finance.

#### *Institutional relationships*

A key element of local support in many cluster studies is local infrastructure, and especially that related to finance for start-ups. The availability of support, especially in the form of grants when firms were in their infancy, also emerged as a key factor leading to the location of the SEs. The profound social problems in cities such as Liverpool, Birmingham and London have meant that they have been able to obtain both national and European Union sources of financial support. As one SE manager in Liverpool commented, being in the city meant that he could ‘tick all the boxes’ when it came to funding, and the city council and other local institutional intermediaries were also very supportive. SEs in Birmingham also reported frequent support in the form of grants and loans from CDFIs and other organizations. The interviews also found that SEs in Newham were using support organizations but, in this case, many made use of London-wide organizations. SEs here also benefited from philanthropic and investment networks, wealthy individual donors, financial links with the nearby City and donations in kind from London businesses. In contrast, the institutional and local government support for SE in Southampton was much weaker, although the majority of SEs were nevertheless reliant upon various types of grant, or contracts with organizations funded through the public purse.

#### *Development of trust*

Finally, the analysis indicated that one of the main advantages to clustering of SEs was the way it facilitated the development of trust. Trust, as defined by HISLOP (2005), refers to the beliefs people have about the likely behaviour of others, and the assumption that they will honour their obligations and not act opportunistically. A trusting relationship is therefore based on expectations concerning reciprocity; this is particularly necessary when inter-organizational projects are undertaken and is especially important in developing links with funders. Establishing trust relations where knowledge can flow freely is therefore a priority for inter-organizational projects.

Although, as noted above, a minority of SEs are highly suspicious of potential rivals, the interviews were suffused with evidence of SE managers using face-to-face contacts to develop such trust-based relationships with various other actors relevant to their operations. The reasons for this were readily also apparent. Within a local area, SE managers typically attempt to deal with social issues in ways that are outside of the mainstream service delivery of the public sector. To do this they need to convince other funders and coordinators of services that they have credibility. A track record was essential to engender trust, but a continual theme of the interviews was the ‘catch-22’ situation this raised for many small SEs: gaining a reputation required funding and funding required a reputation. In a sense, SEs are, like knowledge-intensive business services, ‘systems of persuasion’ (ALVESSEN, 2005). As with many other spheres of business, this takes time and face-to-face contact to develop trust. For example, one SE was developing a new approach to caring for a client group. This required negotiations with the NHS to convince funders that this was an appropriate policy development.

However, one manager (appropriately from Birmingham) commented that new contracting arrangements and a shift towards the cheapest tenders were in danger of undermining this trust. This was a view that pervaded many (well over half) of the interviews; there was an underlying state of anxiety that the complex mesh of local interlinkages between institutions and SEs would be destabilized by new funding regimes.

## CONCLUSIONS AND EVALUATION

This paper has examined whether the large armoury of concepts within agglomeration theory can illuminate the processes underlying the agglomeration of SEs in urban areas of the UK. Insights were sought from the comments and attitudes of a sample of managers of SEs in four British cities. The strategy was to evaluate whether they perceive themselves to be benefitting from being part of a local agglomeration of SEs, or whether their attitudes to their location are dominated by other considerations. The caveat should be added that the findings are derived from SEs in deprived cities and other factors might be more important in rural or affluent regions.

Generally speaking, the managers had a limited awareness of whether they were part of a cluster of SEs and they often expressed contradictory views as to the strength and reputation of their area in terms of SE. There was little sign that managers perceived that they benefitted from ‘cluster brands’ or local reputations for SE. There was evidence of an evolutionary process of spin-outs and spin-offs from existing charities and other state organizations, and this organic, evolutionary process was influenced by various locality effects. The

comments of the managers suggest that the major factor affecting the location of their SE was the presence of intense and extensive need, leading to a demand for its services. However, as with all markets, there is no inevitable automatic translation of demand into supply; markets need to be constructed through the interactions of various institutions, legal frameworks, actors, their intermediaries and networks. Various factors on the 'supply' side therefore affected how these demand/needs are met. Of special importance in the formation of the SEs were ample start-up funds, usually in the form of grants from local institutions. In addition to spin-outs from charities, there was also evidence of a new generation of largely graduate social entrepreneurs who were developing new SEs. A creative milieu underpinned by organizational infrastructure to support SEs was therefore also in evidence. Various courses, conferences and briefings contributed toward this milieu. The exchange of knowledge about the running of SEs was therefore seen to be important, both through informal contacts with other SEs and through formal and informal SE support networks.

It was, however, difficult to find direct evidence to support the importance of the MAR spillovers related to labour market pooling, the efficient procurement of indirect inputs or LKS. These might have existed and the respondents were not aware of them; they are in any case difficult to substantiate in a rigorous fashion. Again it was difficult to find direct evidence of the importance of reduced transactions costs, but many SEs claimed it was useful to be close to supporting institutions, clients, contractors and suppliers. Although their needs are enormous, the markets for SE in large cities are typically precarious and unstable. In this context SEs need to develop relatively strong ties of trust to survive. Some of these linkages may be non-local, but the business ecology of SEs favours close geographical proximity to this range of actors. However, these interactions develop in different ways in different cities such that they have contrasting 'industrial atmospheres' in relation to SE. There was, however, some evidence for the benefits of learning between related and similar sectors. A substantial minority of SE managers claimed they had learnt from private sector firms in slightly different sectors, who were not their direct competitors, while others had taken generic and practical lessons from SEs in slightly different submarkets. The potential importance and meanings of related variety in SE capability development certainly merits further and more systematic evaluation.

To sum up, the study suggests the key benefits of agglomeration to SEs are that it enables access to demand for SEs goods and services and institutional support, funding and commercial contracts as well as access to both formal and informal networks that can provide a wide range of knowledge and mutual support. The key question is whether these benefits of agglomeration will continue into the future as grants

are reduced and efforts are made to put SEs on more of a commercial footing through increased trading and contracts. Arguably, the answer is in the affirmative, for amongst those SEs that survive in a more austere and market-driven environment, knowledge of changing funding regimes and the establishment of the trust needed to secure contracts will all depend on geographical proximity to local contractors of goods and services.

At first glance these findings might be seen as being of only tangential relevance to the major debates about the merits of clustering, since these have tended to focus upon manufacturing industries (and especially high-technology ones) where knowledge of rapidly evolving technological trajectories is of much greater relevance to competitiveness. This first detailed analysis of agglomeration effects in relation to urban-based SEs has shown that there is certainly evidence for their effectiveness in this context, but in somewhat different ways to those typically identified in the literature on high-technology and the knowledge economy. Although 'hard' elements of institutional support such as grants are important, agglomerations of SEs appear to be produced in large measure by a distinctive 'soft' infrastructure comprised of local contacts (both formal and informal) and professional knowledge-exchange networks (COOKE and MORGAN, 1998; BENNER, 2003). In the SE case, in addition to factors such as start-up finance, grants, enterprise networks and business advice centres, this soft infrastructure is comprised of both organized and unstructured mutual support systems and sources of market-related and local business knowledge (both formal and informal). These linkages appear to be crucial for the development of a localized common sense of purpose or mission, entrepreneurial creativity that is 'social' in character and the trust necessary to acquire and maintain contracts.

The findings suggest that the diverse markets for SEs are unstable and precarious and, in such a context, particular types of knowledge about commercial opportunities and funding are of particular importance. Furthermore, at a time when some are questioning the role of localized factors in encouraging clustering (e.g. HUBER, 2012), the predominantly local market orientation of SEs makes the utilization of this knowledge particularly dependent upon a localized business ecology of suppliers and infrastructural support. As befits a preliminary study into an under-researched topic, this paper has taken an eclectic approach, drawing upon a wide range of potential factors influencing this ecology. Now that the terrain has been cleared, it is hoped that future studies will be able to probe in greater detail some of the questions and dynamics that this paper has touched upon.

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## NOTES

1. The composite Index of Multiple Deprivation, rather than a single indicator such as unemployment, was chosen to

get a broad overview of the range of social issues faced by urban authorities in the UK.

2. About half the SEs were involved in education or training, typically for disadvantaged groups, whilst the rest were involved in community development and services of some kind, such as business services, support to other SEs, health- and social care, manufacturing and recycling and environmental work. The organizations interviewed also involved a range of different legal types: companies limited by guarantee (CLGs) with charitable status; community interest companies (CICs); PLCs, charities, and industrial and provident societies (IPSs). Most were small enterprises but in each city several larger organizations were also interviewed.

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