Third Sector Research Centre
Working Paper 31

Black boxes in the wreckage?
Making sense of failure in a third sector social enterprise

Dr Duncan Scott

February 2010
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Abstract

This paper examines the experiences of a single social enterprise that grew rapidly but ended in failure. Over more than 8 years, the author conducted intensive field research during the social enterprise’s life and held detailed post-mortems with key players after its death. This material is part of longitudinal research on social enterprise activity in the voluntary and community sectors, (Pharoah, Scott and Fisher, 2004; Russell and Scott, 2007). It is complemented by a review of five studies of social enterprise failure, together with some wider reflections about reporting on various ‘troubles’ (e.g. error, failure and scandal). The primary emphasis is upon problems involved in ‘making sense’, but is illustrated with reference to the experiences of this case study and the limited literature relating to social enterprise failure.

Keywords

Social Enterprise; longitudinal research; failure; case study; organisational learning.

Acknowledgements

A number of people have commented on earlier drafts, one version of which was presented at the NCVO/VSSN ‘Researching the Voluntary Sector’ conference at Warwick University, Sept 7th, 2009, but I owe particular thanks to Rob Macmillan, Alan Russell, Andri Soteri-Proctor, Simon Teasdale, and Stephen Young.
Researchers interested in identifying and discussing the dimensions of organisational failure in the Third Sector face a number of obstacles: these include:

- a common assumption that third sector activities are to be regarded in a positive light;
- problems associated with the conceptualisation, data collection and reporting on failing, and failed, activity.

The ‘Double Halo’ effect

Two overlapping assumptions complicate much research into errors, scandals and failures in the third sector; these can be termed the ‘Double Halo’ effect. In the first instance policy elites, both in government and the third sector, have prioritised the use of positive pictures of voluntary and community activities. When instances of unwitting incompetence, deliberate malpractice or just plain ‘bad luck’ arise, these are often explained via references to individual and exceptional behaviour rather than in relation to systemic and recurrent influences. A popular theme, often accompanying mass appeals in the wake of natural disasters or underpinning televised extravaganzas such as ‘Children in Need’, is contained in the assertion that, although the third sector’… has its share of rogues and time-servers…, at its best it does wonderful things on tight resources’ (McRae, 2009).

At least there is here an acceptance that the romanticism about the sector’s ‘inherent purity’ (see Salamon, 1995, 15) is no longer accepted. But, there are still academic studies of third sector scandal and mismanagement of resources that conclude: ‘…The idiom: ‘a few rotten apples can spoil the barrel’, however, seems applicable’ (Gibelman & Gelman, 2001, 63). There may (or may not) be only a few rotten apples, we just don’t have sufficient evidence. In any case, the question remains as to whether the ‘apples’ and the ‘barrel’ should be the only focus of critical attention. To continue the metaphor, perhaps the orchard, its soils and the vagaries of the climate should also come under scrutiny?

A second halo has surrounded much writing about Third Sector Social Enterprise (TSSE). Some authors even appear to have a belief in its limitless potential. For example, from a UK-based commentator we are informed that, ‘…at the moment (my emphasis) we don’t necessarily have the capacity to meet all the needs of mainstream society’ (Ahmed, 2009). Meanwhile, on the world stage, we are confidently informed that social ‘…entrepreneurs, for some reason deep in their personality know, from the time they are little, that they are on this world to change it in a fundamental way’ (Bornstein, 2007, 125).

Much less common are those voices questioning the promotional discourse surrounding social enterprise at conferences, in government documents and marketing material (Foster & Bradach, 2005). One such voice seeks to pull the rhetoric closer to everyday experience, by sounding a sceptical note about the:

‘Nice positive stories, easily digested by politicians and policy wonks… (but raise the question)... do such comic-strip portrayals inspire anyone else, or do they leave the rest of us mere mortals feeling powerless?’ (Greenland, 2008).
It is likely that closer attention to the everyday experiences behind the rhetoric will reveal some exciting and positive examples but these will be interspersed with a much more mixed picture of third sector agencies in general and their social enterprise variants in particular. Ultimately the problems for students of failure will not be solely methodological. They will also derive from questions about how to penetrate a number of personal and professional barriers likely to hinder progress to a more holistic if still incomplete conclusion.

**Good practice: poor practice**

References to ‘Halo Effects’ frequently imply that the assumptions with which they are associated are so taken-for-granted as to constitute a form of common-sense; what sociologists call ‘Hegemony’ i.e. ideas so powerful as not to be questioned and indistinguishable from ‘what everybody knows’. More usually, those responsible for managing agencies are aware of flaws in their work, but seek to present a more positive picture. A recent review of performance improvement issues in public services came to what appears to be a counter-intuitive conclusion i.e.:

‘Reviewing cases of poor performance presents a stronger reality check for organisations than looking at good practice. This is because public organisations are now well used to playing the performance game and presenting their activities in the best possible light’ (Walshe et al, 2009, 33).

Walshe and his colleagues go on to suggest that rich material for organisational learning can be obtained from the inspections, audits and public inquiries relating to poor and failing performance. This is a helpful yet incomplete response. What remains underdeveloped are the processes of negotiation, trust-building and disclosure which are surely necessary to achieve what they call ‘… a greater sense of reality than good practice.’ (ibid). Two brief illustrations expand this point, by identifying the different opportunities and constraints experienced by external and internal commentators or evaluators respectively.

**An external commentary (DTA, 2002)**

The Development Trusts Association (DTA) published ‘fabulous beasts’ as a set of 23 miniature case-studies of social enterprise by community-based organisations; one of these was Enterprise Action. Despite the brevity of the example, two commentary strands are identifiable. Firstly, there are broadly positive references to:

- ‘a network of social enterprises’;
- ‘a cohesive network’;
- ‘good reputation feeds its momentum’;
- ‘visibly sustainable practice’.

Encouragingly, interwoven with the above, are hints of a qualitatively different kind:

- ‘grew creatively and chaotically’;
- ‘turned serendipity into a coherent strategy’;
- ‘a lot of bobbing and weaving’.
In the text the former remarks are briefly illustrated whilst the latter are barely visible. Just between the lines lurk chaos, serendipity and a familiar metaphor from the textile industry. Given that the whole purpose of the publication was to accentuate the positive, this could be seen as merely a presentational issue; both the authors and the interviewee from EA wanted to tell a ‘fabulous’ story. Would it have helped if the author could have spent more than a short time in the organisation? For example, A cited as typical the visit of a journalist who visited EA in order to produce a ‘case-study’ as one of a collection of twenty for the Learning and Skills Council: the visit lasted one hour.

External and internal perspectives: contradictory evaluations (Russell & Scott, 2007, 42-47)

A central theme of this section is how the location or site of the researcher, together with ethical and political constraints, have considerable influence on the content of evaluative comment. The context was an ‘Academy for Social Entrepreneurs’ at which embryonic social entrepreneurs, in receipt of financial grants, attended a series of sessions designed for their support and development. A professional evaluation team, hired by the sponsoring agency, concluded that:

‘The course was very popular and there is a strong case for continuing the work … The most valued elements...were the regular weekly sessions with specialist speakers, networking and peer support opportunities and intensive training sessions’ (External Evaluation, 2005).

In marked contrast, the person responsible for designing and delivering the course felt that:

‘The weekly workshop format doesn’t really work… from what I’ve seen, some of the work that people are doing as a result of the sessions isn’t that good. But, that could be resolved if we had more time to do individual work, but we don’t … I think that the scheme as it’s set up just isn’t right for most of these people…’ (Internal Evaluation, 2004).

The first evaluation had a lot of ground to cover: this included a review of documentary materials, a focus group and 52 interviews (47 by telephone). They did not observe much, nor did they spend much time with the author of the second evaluation. As a result they failed to detect (or, at least, to write about) negative/failing elements of the course or workshop. Meanwhile the course organiser kept his evaluation to himself, no doubt calculating that there was nothing to be gained from making it public. Ironically, the sponsoring agency did not continue the work, despite only having seen a totally positive account.

In the case of the EA commentary, potentially negative elements were identified but not developed. Different vantage points, with different investments in revealing or hiding more complex pictures, produced markedly different versions of failure and inconsistency.

Case studies of failed TSSEs

Five published case-studies of collapsed social enterprises in the USA and the UK are illustrative of the very limited literature in this field. Table 1 summarises some of their principle features including name, primary focus and presented explanation(s) of the collapse. All of the commentaries look at organisational goals, structures and reported behaviours after the confirmation of failure. There are few signs of research conducted during the failing process nor is there much evidence of attention to the wider operating environment.
<table>
<thead>
<tr>
<th>Case Study</th>
<th>Author</th>
<th>Overview</th>
<th>Key Findings</th>
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<tr>
<td>Aspire</td>
<td>Tracey &amp; Jarvis, 2007</td>
<td>A participant observation study of a collapsed franchise venture employing homeless people. This concluded that, whilst three-quarters of newly-established franchise systems in the Business Sector fail within the first decade, a key feature of social enterprise is its need to manage tensions between social and commercial goals.</td>
<td>Dual goals ‘… make goal alignment more complex and resource intensive than in business format franchising, leading to higher agency costs.’</td>
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<td>Youth Industry’</td>
<td>Lanzerotti, 2002</td>
<td>A family of projects for homeless young people. This confirmed the conclusion of Tracey &amp; Jarvis, using the metaphor of salad dressing! – the oil and water of social and commercial goals need constant mixing, otherwise they separate. If separation occurs they can no longer use the label ‘Social Enterprise’.</td>
<td>The authors emphasised that mixing (social and enterprise) was difficult ‘… to sustain, requiring a constant infusion of energy to shake things up and keep them in balance’.</td>
</tr>
<tr>
<td>Community Service Organisation</td>
<td>Dart, 2004a</td>
<td>A counselling and social support agency. Here, the goal alignment dilemma is more sharply defined. In this study ‘failure’ is related to mission rather than economic failure.</td>
<td>The author concludes that ‘…business goals may be compatible with only a specific and narrow cluster of traditionally understood non-profit organising values.’</td>
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<tr>
<td>Two Social Enterprises</td>
<td>Twersky &amp; Lanzerotti, 1999</td>
<td>A consultancy report on closure. The two main conclusions appear to at least partially contradict Lanzerotti, 2002.</td>
<td>Firstly, there is recognition that business and social goals should receive the same level of commitment, but without any strong sense that this might be problematic. Secondly, it is assumed that if the commitment is present then social mission opportunities would inexorably follow.</td>
</tr>
<tr>
<td>Four failed social enterprises</td>
<td>Seanor &amp; Meaton, 2008</td>
<td>Emphasises the importance, firstly, of the wider operating environment and, secondly, of issues around ambiguity (no single, clear message) and uncertainty (several interpretations available simultaneously).</td>
<td>Trust is vital, but little sense that it is likely the mix of ‘social’ and ‘enterprise’ may accentuate the very ambiguities and uncertainties which often erode this.</td>
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</table>
One set of questions emerging from the case-studies concerns definition. Different organisations called themselves ‘Social Enterprises’ without recourse to an accepted terminology. For example, one commentator (Dees, 1998) offers two polar types of ‘Philanthropic’ (= closer to traditional third sector social mission agencies) and ‘Commercial’ (= closer to market-oriented organisations). Inevitably, two polar types frequently produce ‘mixed’ types, driven by a determination to achieve a ‘balancing act’ between social and commercial.

Nearly all the studies of failure stay focused on the organisation and say little or nothing about extra-mural political and economic systems. Most crucially, all the accounts skate over the questions surrounding data collection and analysis. How they researched and made sense of failure is either implicit in their accounts or relatively opaque.

**How is ‘failure’ conceptualised?**

‘Failure’ can be said to exist when part or all of an organisation ceases to operate. On the other hand, that same organisation or part may be described as ‘Failing’ if they are consistently not fulfilling their own explicit aims and mis-using their human and financial resources. In the first case the emphasis is on an end state, where we can talk of ‘Summative’ evaluation. The latter is essentially about processes or ‘Formative’ evaluation. Attempting to identify failing and failure within an organisation is hard enough: when we are urged to include scrutiny of the external environment at the same time, then data collection and the related explanatory tasks often appear impossible.

At a popular and personal level positive thinking rules. ‘Think positive’, and ‘always look on the bright side’ are written deep into western cultures. Dare we do otherwise? There is a literature which includes references to the supposed ‘power of negative thinking’ (Leve, 2009) at an individual level, and suggests that ‘most things fail’ in the lives of organisations and governments (Ormerod, 2006). The latter author summarises neatly, by way of an evolutionary metaphor, that:

> ‘Species, people, firms, governments are all complex entities that must survive in dynamic environments which evolve over time. Their ability to understand such environments is inherently limited’ (op cit, 221).

Such pessimism, about the limits of individuals and organisations to predict and plan in an uncertain world, has been given added weight during the current economic downturn (Kalentsky, 2009), confirming the stance taken by many social scientists who increasingly argue that “… the best we can hope for in writing about the external world is degrees of failure (i.e. part truths)…” (Back, 2007, 155).

It appears therefore, that ‘Failure’ is becoming ‘normalised’ in the sense that the world is pictured as more uncertain than (at least some) increasingly modest social and economic scientists can explain. Part of this tendency derives from a recognition that individual and small group behaviours cannot be totally separated out from those analyses which consider what we call the ‘bigger pictures’. For example, when one commentator asserts that ‘… as increasingly wide swaths of human society become conceptualised as markets, then the businesslike hybrid face of social enterprise is legitimate...’ (Dart, 2004, 421) then it is appropriate to ask questions about how such big picture ingredients as ‘society’, ‘markets’ and ‘business’ have been conceptualised. Is it possible that social enterprise as an element of government and corporate policy is being used:‘... both as a distraction from and a response to the significance of broader inequalities (societal and global) and as a re-
branding (and re-deployment) of resources rather than the creation of additional ones.’? (Pharoah, Scott & Fisher, 2004, 11; see also Amin et al, 2002)

How might failures be researched?

If we are to get beyond the unrealistic expectations engendered by the constant re-telling of a small core of success stories (Foster & Bradach, 2005, 94), it will be important to begin with the assumption that failure is more normal, more frequent and more predictable than hitherto alleged. Many corporate institutions, such as medicine and aviation have set up systems of disclosure which do not begin with punitive and legal intent. Rather, their starting-point is that ‘… it’s the process not the individuals in it, that requires closer examination and correction’ (Gawande, 2003, 64). For example, when a plane crashes, lands badly or just avoids a mid-air collision, fairly soon afterwards established ‘de-briefing’ of all those centrally involved occurs. Pilots may be systematically questioned, even re-trained to incorporate new insights on such aspects as handling characteristics, landing speeds and their interaction with wind and weather conditions. Similarly, many medical institutions have established regular internal reviews of operating procedures which in certain instances offer a sanction-free space for open discussion of error and failure. Whilst some larger third sector agencies may have evolved forms of recording which facilitate regular analyses of failing and failure, it is almost certain that a majority of third sector agencies refrain from formalisation. Perhaps a first step would be the encouragement of a culture change from defensive and often opaque procedures to at least greater internal transparency. It will not be enough to simply call for a variety of methods and time periods to promote more participant and longitudinal approaches. Even the closest EA informant limited his disclosure until after the agency had gone into administration.

At present two main alternative research approaches appear to offer models for greater pro-activity: these are firstly the whistle-blower, and secondly those familiar commissions which are set up in the wake of the death of a child. Both tend, however, to locate failure within the agency, whereupon individuals and institutions are quickly ‘blamed’. If the likelihood of failure and errors could become part of normal discourse instead of the outcome of moral panics then there is at least the possibility that the culture of organisations might become less defensive. Until then the external researcher will continue to depend on a mixture of participation and observation based on trusting relationships with one or more insiders.

Enterprise Action – its rise and rise, fall and fall

EA was essentially a traditional mission-driven third sector agency which convinced sponsors for a time that it was something else i.e. a social enterprise. This seemed to be a new way of gaining recognition, funds and support. The Double Halo effect also proved temporarily useful, in spite of continuing difficulties with internal monitoring and accounting systems. This section summarises:

1. the main phases of the research and explores the usefulness of the aviation-derived ‘Black Box’ metaphor for making sense of a failed/failing organisation;
2. the origins and growth of EA, paying particular attention to the significance of its interaction with the external environment;
3. the uneven usefulness of different research approaches.

**Three phases of research**

- 30/5/02 – 5/6/03: twelve day visits for intensive semi-structured, taped interviews and observations. A field diary recorded each visit as well as observational visits to two large public meetings held by EA. In July 2003 this data was written up as 49 page report to CAF and to EA (Scott, 2003). Sections of this were subsequently incorporated in the national publication. (Pharoah, Scott & Fisher, 2004);
- 18/3/05 – 12/5/05: two day visits as part of preparations for a second publication (Russell & Scott, 2007);

**The ‘black box’ analogy**

So-called black boxes have been devised to help the aeronautical industry monitor normal flights and analyse errors, malfunctions and failures. In fact, these boxes are usually bright orange and come in three forms: the main box containing flight data; the cockpit voice; and a quick release box. The first two are harder to access following a failure, and require specialist equipment. The quick release box is easier to access and is used to detect events that deviate from the normal. Three aspects of the Black Box analogy are worth further scrutiny:

- there are different but related instruments which collect data on pilot and plane behaviour;
- the instruments are embedded in the organisation (=plane);
- the characteristics of embeddedness exhibit positive and negative features.

For the social researcher the analogy has relevance to the extent that s/he recognises and uses different data collection approaches and has an understanding of the advantages of the embedded interviewee or piece of internal documentation. Yet, at the same time, that same insider perspective can be limiting because it frequently lacks a comparative overview of the external environments. There is also a tendency for accounts internal to an agency to be defensive of its reputation even during failing times, especially if the informant has a vested interest in keeping their job alive.

Clearly, the concept of a Black Box as an all-seeing analytical machine is a dangerous one because: *We have an awful predilection for the brain, a far from innocent desire to turn it into a ‘black box’ that explains all, that solves all* (Baumard, 2001, p.58). The same author goes on to warn us of the ‘limits’ to human understanding because of a combination of physiological, biological, material and even spiritual factors. A similar stance must be the case for the qualitative researcher and his or her informants and interviewees, however embedded they have become in the social contexts under scrutiny. Nevertheless, whenever a plane (or, in this case, a social enterprise) crashes, the search begins for the ‘black’ (= orange) boxes. It is hoped that real-time information will contextualise and provide clues in the search for an explanation of the event. In the case of Enterprise Action the first two phases of the research constitute elements of real-time and retrospective observation and
commentary. These have subsequently been augmented by an unbroken sequence of direct discussion and documentary exchange with a previous employee, who not only walked away from the wreckage, but also became increasingly committed to helping construct a more rounded view of the failure. It has become apparent that much post-crash commentary (by the media, local politicians and third sector professionals) has tended to concentrate on the ‘plane’ (i.e. Enterprise Action) and the ‘pilots’ (EA Director and Deputy), with virtually no regard for the external environment (the ‘air’, ‘weather conditions’ and other ‘aircraft’). The analogy is useful therefore, to the extent that it alerts the reader to these alternative dimensions and prevents what has become the conventional myopia.

However, one danger inherent in drawing greater attention to external factors is that the argument can become too polarised: the causes of failure are either internal or external. In reality it is more likely that an interaction of influences is at work, although the fact that internal features appear to be more easily controllable encourages a focus on them. The EA research was primarily concerned with the internal dynamics of the organisation but soon came to realise these could not be isolated from a wider set of opportunities and constraints. Three illustrations are indicative of the complexity of shifting the research emphasis to the external environment:

- EA had generated a diagram purporting to show its links with external agencies—the boxes and lines were complex and appeared to represent all the links without any differentiation in terms of frequency or intensity of relationship;
- Annual Reports contained lists of names and organisations to be thanked but the lists were no more than that;
- the nearest insight into how EA discriminated amongst its external relationships came via the list of invitees to the Royal Visit. It appeared that there was strong representation from EA staff, trustees and users, local churches, small business, legal and banking with low prominence given to local politicians, public sector employees and medium/large industry.

**Enterprise Action: origins and growth**

EA emerged in the early 1990s as a church/community response to sudden mass unemployment in the dominant local industry. Several key staff (including the two top managers) have been ever-present and shared professional backgrounds in youth work. Local churches have supplied several Board members since the start, and reinforced the strong commitment to a social mission. The original ingredients of this mission were two-fold i.e. 1) to enable young people to ‘take their places as valued, contributing members of the community’, and 2) assist young people ‘into full employment’ (EA Annual Report: 1993-4).

Ten years on, EA had confirmed its prominence with two Royal visits and one from the then Home Secretary. It had also ‘discovered’ Social Enterprise and expressed this in twelve aims and fifty eight objectives across thirteen A4 pages. (EA Strategic Plan: 2003-8). Less than four years later, it experienced police intervention and liquidation.

This section briefly outlines key moments of growth and is then followed by a) a description of EA’s fall, and b) an exploration of the dimensions and causes of its fall, with particular reference to research issues.
### Enterprise Action: Key Dates

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Event</th>
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<tbody>
<tr>
<td>1993</td>
<td>May</td>
<td>Established from Church-Community base.</td>
</tr>
<tr>
<td>1993</td>
<td>June</td>
<td>First worker (later became Chief Executive).</td>
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<tr>
<td>1995</td>
<td></td>
<td>First independent projects.</td>
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<tr>
<td>1998</td>
<td>April</td>
<td>Charitable Company limited by Guarantee.</td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td>Chief Executive appointed Deputy Lieutenant of the county.</td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td>18 projects listed, with 102 employees; first Royal visit.</td>
</tr>
<tr>
<td>2002</td>
<td>June</td>
<td>£400k grants for furniture workshop.</td>
</tr>
<tr>
<td>2002</td>
<td>November</td>
<td>Community Hall project (£1.5m) launched.</td>
</tr>
<tr>
<td>2003</td>
<td>April</td>
<td>Second Royal visit; Chief Executive awarded MBE and Regional Social Entrepreneur of the Year.</td>
</tr>
<tr>
<td>2003</td>
<td>October</td>
<td>Visit of Home Secretary.</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>Chief Executive awarded Regional Social Entrepreneur for a second time.</td>
</tr>
<tr>
<td>2006-2007</td>
<td>Nov-Jan</td>
<td>Suspension / Resignation of Chief and Deputy Executive; Police Investigation.</td>
</tr>
<tr>
<td>2007</td>
<td>April</td>
<td>Liquidation begins.</td>
</tr>
<tr>
<td>2008</td>
<td>July</td>
<td>Closure of Community Hall which was sold later in the year to a property developer.</td>
</tr>
<tr>
<td>2010</td>
<td>Feb</td>
<td>February-Final meeting of the Liquidation process.</td>
</tr>
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</table>

Three aspects in EA’s fifteen year life are given prominence in the next sections:

1. apparent project ‘inflation’ – twelve are listed in 1998, only three years after the establishment of the first truly independent projects;
2. very high profile recognition and endorsement – between 2000 and 2006, EA hosted two Royal visits, one Home Secretary, received c. £2 million in grants, whilst its Chief Executive received four regional and national awards;
3. recognition and growth coincided with below-the-radar organisational and financial crises.
Enterprise Action: the fall

The demise of EA made its truly public ‘debut’ with a front-page spread in the local evening paper: ‘Charity bosses suspended: probe into how funds were used’ (11/1/07). Within EA, demise moved beyond gossip with a legal struggle between the two executive officers and the Management Board from late November, 2006. By January 22nd 2007, the former had resigned, later to be dramatically arrested (Charity Bosses Arrested, 7/2/07). A view from inside added to the quasi-criminal flavour:

‘What a day yesterday, once again we are front-page news. The police arrived in numbers yesterday and arrested X and Y. They are now out on bail without charge. My filing cabinet (as with all the others) is now empty. Hard drives were removed or copied. So we are just waiting to see what happens next’ (EA Research gatekeeper, 7/2/07).

From January 11th to August 20th there were at least 10 articles in the local press plus one or two in a national magazine. At the heart of the stories were references to financial mismanagement. Two themes held it all together i.e. personalities and their probity (or alleged lack of it) on the one hand, and the fate of the organisation on the other. ‘Closure’ took place at different rates and with uneven detail both in the press and in the experience of EA staff, volunteers and trainees. On May 24th, 2008, front page headlines announced ‘Pair Cleared’. This was, however, qualified by the emphasis in the article on insufficient evidence, plus references to the paperwork being handed on to the Official Receiver. The implication of all this was clear - smoke is normally associated with fire. About six months later the Community Hall, EA’s jewel in the crown, was sold to a property developer at a tiny fraction of its refurbishment cost. No public analysis of EA’s contribution has since been forthcoming except via references to fragments about subsequent sub-project closures. Failure had been defined in personal and financial terms, and was well and truly complete by the end of 2008.

Making sense of the fall – opening the ‘black boxes’

Two questions frame any consideration of failure, as well as the accompanying research dilemmas:

1. how far was the public focus on the two leaders of EA justified, and to what extent did this close down alternative lines of enquiry? Here, a strong discourse could be termed ‘prominent leaders with weak systems’;

2. is there evidence that the demise of Enterprise Action can be linked to factors outside the control of its staff and trustees? Here, there are signs (often in fragmentary form) that EA was operating in a ‘failing’ town, in the sense that ‘Steeltown’ lacked many of the economic, political and social resources to respond adequately to successive waves of rising unemployment.

Most attention in the initial two research phases centred on Enterprise Action and its managers, both in the core administration and at sub-project level. The basic terms of reference of the Charities Aid Foundation (CAF) sponsored research established this organisational focus at the outset, which was in turn confirmed by another agency in the post-mortem phase. For example, in the early stages of failure (when recovery still seemed an option) a worker from the regional office of the Development Trusts Association (DTA) was deputed to provide assistance. He subsequently identified three key dimensions of failure, relating to:

- the competence of the Management Board (Trustees);
• the nature of local professional advice from both lawyers and accountants;
• the strategy of EA as epitomised by its Community Hall project (telephone interview 21/2/07).

In brief, the DTA conclusions could be characterised respectively as about low/uneven competence, contradictory advice and an over-ambitious strategy. How far and in what ways are these conclusions evident from the ‘Black Box’ evidence i.e. from research conducted during the life (rather than after the death) of EA? In the account that follows, data will be presented from direct observation, formal interviews, semi-participant observation as well as informal conversations.

Research diary entries:

‘Met the Director and assistant. Friendly (instantly), informal. Sat round a rickety table, door still open, lots of interruptions. The walls were covered in flip-chart, felt-tip and ‘Strategic Columns’ – none had been filled in.’ (30/5/02).

Nearly a year later

‘… a new ‘In-Out’ notice-board by the main door, neatly positioned below an equally new ‘Investors in People’ plaque. It contained 17 names, all designated as ‘Out’, although I had seen at least half within the hour.’ (27/3/03).

Between these two dates, I examined EA documents in an attempt to identify its organisational shape and to explore whether the diary observations about apparent impression management could be corroborated. By June 2003, the EA Strategic Plan referred to 18 sub-projects⁶, yet an interim report (Scott, 2003) a few weeks later described project ‘inflation’ (= over reporting), without much regard for project turnover (= new, closed, in ‘suspended animation’). More specific data was provided in a series of interviews with a newly-appointed ‘Information and Systems’ manager, who noted:

• an active sub-project count of between 10 and 13 – dispute continued as to the accepted EA definition of a sub-project;
• a staff count of between 44 and 50;
• a trainee count of 97 active and 217 on file;
• a volunteer count of 23 with 40 on file (Scott, 2003, 12).

The manager concluded:

‘This is probably the first time that EA management have had real figures regarding the ratio of staff to trainees. This is very serious stuff.’ (ibid)

Clearly, what this person wanted was greater clarity in the face of confusing basic data. This same point was made by a regionally-based regeneration professional, when contributing to the post-mortem on EA i.e.

‘It’s important to have good financial planning and clear objectives to manage the difficult balance between running a business and a social benefit organisation’ (National magazine, 2003).

‘Clarity’, in relation to management principle and practice, has almost attained the status of ‘Motherhood and Apple Pie’ – beyond critical scepticism. The Chief Executive of EA hinted however at a different, more fluid approach i.e.:
'We have got a strange collection of structures... I'm less concerned with the structure questions – they're mostly healthy. If you're going to challenge people, be socially inclusive and so on, then you've got to have something like this pre-historic swamp as a seed-bed to grow those things' (Scott, 2003, 18).

This was not the first time a biological image featured, Chameleon was as popular as swamp. Clarity versus Chameleon proved a recurrent tension and not necessarily a mutually exclusive one. In other words when different staff asked for clarity (e.g. about numbers of employees, volunteers, former users in jobs) a common response from the two managers centred on the inherent fluidity of EA which (they would argue) precluded what might be considered a waste of scarce resources in search for more solid data. ‘Good Housekeeping’ was more about flexibility and sensitivity to the individual needs of the users. Reports from sub-committees and monitoring of progress on action points were lower down the priority list.

To what extent do different research approaches confirm this recurrent tension?

1. interview – of the most active member of the Management Board, who visited EA two or three times each week: ‘We never have enough time... to discuss what I’d call the really important points’ (Pharoah, Scott & Fisher, 2004, 41);

2. observation – of an internal meeting for sub-project managers. The field diary records a degree of formality, in that minutes were taken, but two-thirds of the managers were absent and few of those who attended brought copies of previous minutes. The Chief and Deputy Executives ducked in and out of the 53 minute meeting, so three different people chaired the discussion. Eighteen items were introduced, but there was little evidence of discussion or action points (Diary notes and Scott, 2003);

3. semi-participant observation – of the public launch of EA’s Strategic Plan. The Chief Executive closed the meeting with a 14 minute declaration of vision and values; this speech contained no explicit references to the Strategic Plan (a copy of which had been given to every guest). There were no detailed references to social enterprise.

Both the Chief and Deputy were consistently pleasant and informal. Yet, they were described as being ‘too strong’ for other members of the core administrative team, even whilst demonstrating high levels of informality and flexibility, particularly in relation to the constantly shifting demands of the external environment. When reference is made to ‘Chameleon-like’ behaviour this can sound pejorative. But, the mix of pleasantness maintained high levels of staff loyalty, whilst the centralised and opaque executive control may have had some limiting effect on potentially de-stabilising debates. When the Community Hall became operational the ‘Pleasant/Opaque’ style was inadequate. The soft centralised approach ensured a commitment to social values but was never enough to capture the demands of enterprise. The issue of mission was always central. Some trainees were taken on seemingly to underline the inclusivity of the organisation. But, they didn’t always attract any or a sufficient fee income; hence they played a small part in the erosion of financial sustainability. It is possible that EA had adopted the ‘Social Enterprise’ label because this had become a prominent policy area, apparently associated with new funds. It is also possible that EA was able to exploit the
double halo effect with some external sponsors – as a Third Sector Social Enterprise it offered itself as an appropriate vehicle with which to respond to certain dimensions of social need.

But, just as EA had first emerged in response to the dramatic downturn in the fortunes of the town’s dominant employer, so it must make sense to consider how far and in what ways institutions beyond EA played a part in its changing fortunes. Here the alleged strength of the Black Boxes – their embeddedness in the plane (=EA), were also their greatest weakness. My determination to become as embedded as possible (by developing relations of trust) like the real Black Boxes, meant that I had less time left to consider:

- the pool of local professionals;
- the impact of the local economy;
- the position of local political structures;
- EA’s relationship with Steeltown’s civil society;
- the viability of local markets in relation to the EA sub-project portfolio;
- the size and reliability of extra-local sources of funding;
- the impact of high status patrons of EA on local perceptions and attitudes.

Whilst details have been gathered about some of the above, there remain more questions than answers in the following section. Steeltown has experienced a twenty year decline in employment opportunities with male unemployment more than three times the national average. Not surprisingly, there are lower than average percentages of professional and managerial groups. No doubt much could have been expected of the local authority. From the early 1990’s, the council has attempted to bend job creation and regeneration towards the poorest, yet its 1999 Strategic Plan announced that they had only just begun to even prepare a Borough-wide strategy for community-based economic development (A Strategic Plan for Steeltown Borough, January 1999, 26). Nearly four years later, one of the consultancies hired to facilitate these initiatives concluded (as part of its evaluation of a £5.6 million single Regeneration Budget) that, whilst there is a great deal of commitment to the voluntary and community sectors:

- the different stakeholders failed to agree on what constituted a community enterprise;
- new jobs from within the third sector were few in number;
- the hard to reach were not being reached (SRB Evaluation, November, 2002).

The aforementioned ‘commitment’ may be less comprehensive than it first appears. The local authority’s own plan noted that:

‘... there is much evidence that this sector is under-developed. According to the rule of thumb adopted by the Community Development Foundation, Steeltown should have about 180 community groups or organisations – the actual figure is probably half that’ (A Strategic Plan for Steeltown Borough, January 1999, 26).

Other commentators claimed that the local policy makers didn’t take the third sector seriously, local political leaders did not ‘appreciate’ EA’s income generation strategies, and allegedly that ‘cut throat’
competition existed within the larger third sector agencies (Scott, 2003, 34). EA’s Chief Executive tended to corroborate much of this:

‘I think they (policy makers and politicians) regard us with suspicion, possibly as threatening because we don’t necessarily work in traditional ways. We’re relatively uncontrollable because of our extra-local resourcing’ (Scott 2003, 35).

Some councillors (and some third sector agencies) were totally negative:

‘...it (EA) rode on the back of ten thousand redundancies for too many years and got away with it’ (local political actor).

Even political support was not enough; different sub-projects in EA often had to navigate a mesh of relationships with local schools, probation, social services, health or the Learning and Skills Council. Often, the end results of different ‘navigations’ were variations in the terms and conditions of different service contracts. In its first decade, EA management had juggled financial relationships relatively adeptly, if not without periodic crises. They operated from a low-cost (if inadequate) building and were edging into new markets (both in welfare provision and, to a lesser extent, commercial areas). The large Community Hall project proved to be several steps too far. ‘Thin’ relationships with Steeltown politicians and periodic interruptions of large cashflows may have accentuated EA’s failing position, but in the absence of more solid evidence these remain speculative conclusions.

EA’s Chief Executive was part of Steeltown’s tiny upper middle class (with links even higher). There were social relations into local landed gentry and thence to very senior Royals, whereas Steeltown’s political culture had grown out of the hierarchies and union solidarities based on the dominant employer. The Chief Executive kept the councillors at arm’s length, whilst they perceived EA management as ‘a law unto themselves’. Overlaid on these social layers were personal antagonisms. When, therefore, funding was sought or influence needed, help from within the local political and policy worlds was less forthcoming than might have been the case.

Extra-local cash flow problems were a constant worry, but became a hugely significant problem as the Community Hall opened:

‘One ‘running sore’ throughout the whole period was the £180k (approx) owed by the Government Regional Agency for completed Social Fund contracts during 1999-2001. After nine audits and dealing with twenty three different desk officers, some of the money was paid in 2006, by then it was too late’ (EA Research gate-keeper, 1/5/08).

There are clearly a number of overlapping explanations of organisational failure. Each of these presents the researcher with different methodological dilemmas, which the next section must now consider.

Lessons in failure – the prospects for researchers

How we research failing processes and failure will be made easier to the extent that individuals and institutions feel able to talk about these topics. Only then is it worth constructing research approaches which encourage trusting relations. In this respect the primary problem is not methodological but one
of assumptions within closed or open cultures. For example, many commentators, from within policy, practice, the media and academe, exude confidence. The evidence from EA and other sources (Gawande, 2003; Ormerod, 2006; Seanor & Meaton, 2008; Walshe et al, 2009) suggests, however, that organisations operate in inherently complex worlds and the best any of them can hope for is degrees of internal coherence. For example, Steeltown’s largest employer was reported, during the final days of EA, as being four years late and £1 billion over budget on its latest construction project (National Broadsheet, 12/5/07). A greater degree of realism in assessing the financial sustainability of agencies such as EA is surely the lesson to be taken from these details.

As far as many social researchers are concerned, this realism requires an acceptance that: ‘...the certainty to which social science is prone needs to be laid to rest in the graveyard of twentieth century conceits’ (Back, 2007,1).

Some of the advantages of the ‘Black Boxes’ in Enterprise Action related to the qualitative approach, over time, of the research. Formal statements and documentary rhetoric of EA could be checked in successive visits, by interviews, conversations, observation and participation. On the other hand two disadvantages persisted. The first of these is inherent in any qualitative research where the field worker operates alone: intensive involvement in one corner precludes comparable access and involvement in another. A second inherent problem, more specific to Failure Studies, concerns disclosure. During several years of intermittent research, where good relationships with friendly people had been established, interviewees and informants were clearly not revealing much of their knowledge of impending organisational meltdown. Loyalty to the agency, their colleagues, reluctance to be responsible for ‘making things worse’, and a determination to hang on in the hope that things would get better, all played a part. After the crash, some people became more open (the former gatekeeper to the research phases7) whilst others have been totally unresponsive8 to successive drafts (the former Chief Executive). Social researchers may also play a part in this culture of reticence: too often they prioritise the development of relationships at the expense of asking potentially awkward questions. A close reading of the two publications which included details of EA before the final crash (Pharoah, Scott & Fisher, 2004; Russell & Scott, 2007) provides numerous clues to organisational tension and incoherence. More critical commentary (such as this paper) only surfaced afterwards.

And then there is the problem of the single case-study. Enterprise and Steeltown cannot represent everywhere. They may, however, encourage a wider perspective on social enterprise developments. How useful is the label ‘Failing Town’ in relation to Steeltown? Even if it is not possible to answer this question, the very act of posing it reminds us that EA did not fail alone. During the period of EA’s final demise (2006–8) a further handful of small projects collapsed, a major infrastructure organisation went into administration amidst inquiries into financial irregularities and the local Social Enterprise Network concluded its three year programme (on a £600k grant) by announcing that it had established only 20 new jobs9.

What would a ‘Failure Policy’ look like?

Ambitious organisations accept that they must plan ahead and that a key theme in their planning will be the identification, discussion and adaptation of what is commonly termed ‘good’ or ‘best practice’. No doubt within the latter there will be references about what to do when things go wrong.
But greater attention would need to be paid to the potential ‘warning signs’, before any crisis is reached. To return to the aeronautical metaphor, it is not so much about brief displays with oxygen masks and inflatable life-jackets and more about the training, de-briefing and re-training of pilots and cabin crew before any crash occurs. Such an approach assumes that there will inevitably be degrees of ignorance, uncertainty and error which require anticipation in a strategic way. Halos, of whatever kind, can be distracting in arguing for such an approach because they take too complacent or too crisis-oriented a view. Therefore, what might be termed a ‘Failure Policy’:

1. would begin from the assumption that all of us must grapple with our ignorance more wisely (see Gawande, 2003, 8);
2. systems for disclosure are common in large institutions such as the aeronautics industry and health services. These anticipate individual reluctance to admit error, by promising various non-sanction arrangements for those who ‘open up’. Smaller organisations such as EA could operate more informally with non-managerial consultants/mentors, who could facilitate at least partial disclosure. The problem for researchers is they need to get close enough for long enough to build at least partial or fragmentary trust;
3. disclosure is as nothing if it doesn’t encourage some forms of diagnosis. The DTA have drawn up a framework of ‘traffic-lights’ to encourage collective discussion of mutually agreed early warning signs;
4. but, have organisations got the ability to digest and absorb what some have called the lessons of ‘poor practice’ (e.g. Walshe et al, 2009)? Much will depend on the extent to which the stories of failure are sufficiently sensitive to the realities of the people charged with carrying complex, contradictory everyday life forward. Social researchers can help people write their own stories if they are in a place long enough to develop sufficient trust. Walshe and colleagues suggest that audits and inspections can provide starting-points, but their focus was on the larger public services. EA and many third sector social enterprises are much less likely to be formally audited or inspected;
5. the heart of any Failure Policy would need to include a statement of underlying purposes. For example, in the event of organisational decline/signs of failing systems, are responses to be framed by resuscitation principles and skills or those of the abattoir? In other words, instead of proceeding to liquidation could greater energies have been invested in retaining the Hall for public use? As events have unfolded, one piece of ‘accounting’ needs to note a) that the revenue from the building’s initial sale was only 20% more than the liquidator’s fee and b) the subsequent rapid re-sale of the building brought in a five-fold profit for the property developer concerned. Meanwhile, public money has been invested in the regeneration of another hall only a few streets away. Who profits from failure must be an urgent subject for policy debate. Enterprise Action’s decline and ultimate closure is a case in point; the responses of all those involved underline the merits of a research approach which takes the longer view. What happened afterwards, when the doors had all been closed, and the staff had gone home, reveals the extent to which any of the parties had anything resembling a Failure Policy.
Failure was not a one-off event. Even in its public guise, leaving aside questions about the extent to which early signs were visible to at least some of EA staff, it took more than two years. Suspension and arrest of two senior staff, liquidation, closure, and sale of the Community Hall began in November, 2007 and ended in February 2010. In the early period EA senior staff and the Development Trusts Association attempted resuscitation but the mode of Failure Policy which eventually became dominant was that of the abattoir not the hospital. Joint liquidators were appointed on April 20th, 2007. They delivered their twenty page report at the beginning of March, 2008, and the final liquidation report (15pp) to meetings of members and creditors on February 23rd, 2010.

By the end of the year the Community Hall had been sold at a London auction for £110,000. The web site of the new owner, a Venture Capital company, boasted that it possessed the appropriate skills to deal with a failed enterprise because the owner had only recently lost tens of millions. Eight months later the first property developer (PD1) sold the Hall to another property company (PD2) for £500,000, whilst remaining in place as the ‘manager’ of the building. The local paper summarised different local perspectives (Evening paper, 12/8/09), ranging from ‘disgusting’ (local charity and former tenant) to ‘questions’ about the initial sale (estate agent) and ‘you have to admire the people that bought it because they made a fantastic investment’ (estate agent). The asset had not been safeguarded for public use: extending the abattoir metaphor, the Community Hall was treated like a carcass to be carved up, and then carved again-for private gain. At the very end of this failure story, one research lesson is that ‘Black Boxes’ or different research perspectives inside the social enterprise proved useful, but partial vantage points from which to observe, participate, interview and converse. On the other hand, being able to retain contact with unfolding events (a feature dependent as much on the accident of the convergent, non-academic interests of two people) required thinking outside the box.

In some respects the study of this failure has a tendency towards a gloomy, even angry, conclusion. But, different research approaches with their strengths and weaknesses have been explored and the positive features of Enterprise Action still shine through. For all the errors, individual and collective, many people had positive experiences, not otherwise available in a failing town. Failure then becomes not one monolithic state at the end of something, but multi-layered and wrapped up in qualitative experiences along the way. To have attempted as much as Enterprise Action may even constitute a success in the midst of failure.

An endnote for researchers

So many organisations ‘crash’ and leave little or no evidence of their experiences of failing and failure. Like the plane that disappears into the sea or explodes on a distant hillside, there may not even be a Black (or Orange) Box to open. Enterprise Action’s life and death has become more available for post mortems because of the twin coincidence of two pre-crash research exercises and continuing (if limited) contacts with a reasonably well-placed survivor. Unlike the recent account (Langewiesche, 2009) of the successful crash of the US Airways flight from La Guardia airport on January 15th, 2009, into the River Hudson when all were saved, Enterprise Action has few publicly accessible witnesses. No-one to recount their equivalent stories to those of the US plane, downed
because it crossed the path of migratory Canada geese, hit five and sucked three into the engines. Saved by a special pilot and ‘saved’ for future studies of failure.

At least three dilemmas and questions require further consideration:

- given the likelihood of limited resources, how far and in what ways can researchers look beyond the organisation into the complex social, political and economic environments which help shape success and failure? Should there be more studies that concentrate on the ‘ecologies of influence’ which lie outwith specific agencies?

- how useful are the concepts of a ‘Failing Town’ and a ‘Failing Civil Society’? In view of the continued influence of the Double Halo effect, whereby both the third sector and social enterprise tend to be viewed relatively uncritically, this seems like a project whose time has come;

- what balance should be struck between researcher-researched relationships and the obligation to reveal poor/failing behaviour? At the very least, it may be more useful (if not more comfortable) to introduce emergent data of this kind to managers before any crash. The risk of endangering trust having to be weighed against potentially fruitful disclosures and discussions.

Research on Enterprise Action began because it had been singled out as an exemplary organisation—a literal prize-winning success. Failure as a topic emerged after the original sponsored research had been concluded. Yet, the opportunity to catch a series of glimpses of the wreckage and aftermath offered itself to this researcher, a person with some (semi-retired) time but few other resources. Social researchers, especially qualitative ones, must be alert to seize unexpected opportunities, even if not completely ‘ready’. They cannot engineer failure nor can they afford to wait until the last nail is in the organisational coffin. They have to make the best of the circumstances they find themselves in. ‘Twas ever thus.

Endnotes

1 ‘A’ began as gatekeeper to the researcher in that he operated ‘on behalf’ of the Chief Executive, arranging interviews, copying documents and filling in gaps in the arranged schedule of meetings.

2 Alliterative headings are meant to catch the ear and hint at a theme. In this case, the theme is of irregular growth and decline, both often rapid, with only uneven connections to the existence (or absence) of organisational capacity and competence.

3 One of these involved a Royal visit and has been published as an illustration of observational and interpretive issues in qualitative social research. (Russell & Scott, 2005, 8-12).

4 c.£110,000. The Community Hall absorbed over £1.8million of grants, as well as hundreds of hours of paid staff time and unpaid overtime / volunteering.
‘Steeltown’ has been dominated by a single large employer, forced since the late 1980s to make a series of very large down-sizings. The subsequent demographic, economic, political and civil society dimensions of the town have been much affected if infrequently studied.

6 EA constituted the overarching ‘project’, within which individual specialist activities (furniture making/restoring; catering; gardening etc) could be termed ‘sub-projects’. Each of the latter had slightly different relationships with EA’s core administration.

7 After the crash, he became first an informant and subsequently a friend. What encouraged the latter phase was a shared interest in the minutiae of Association Football. It is extremely likely that his willingness to operate as an informant would not have been sustained over several years purely on the basis of a shared interest in organisational failure!

8 The Chief Executive’s behaviour is not surprising, particularly given the media coverage of EA’s demise. References to police arrests and insufficient evidence (implying, presumably, there was some?) to prosecute would encourage most people to seek a more private life. For someone who had been awarded several honours, partly in recognition of the work of the Enterprise Action organisation, the crash must have been doubly painful.

9 After EA crashed, eight micro-businesses, employing at least twenty people, have been identified as emerging directly from the closure.

10 Up to 20 questions on a vertical axis, with Red, Amber and Green on the horizontal axis. For example, ‘Have we ever sought an income-generating opportunity even though it was not central to our core mission and values?’ Red = ‘Yes, we’re always open to new opportunities’, Amber = ‘we considered it, but rejected it’, Green = ‘No, we always evaluate every opportunity against our mission’. In this form, it feels all too logical and text-book-like, but the idea could well be adapted (DTA,2008).
NB A degree of ‘disguise’ concerning the location and identities of ‘Steeltown’ and ‘Enterprise Action’ has been carried forward from earlier research. This has meant that specific references to the town and the agency are not listed here, even though indicated (in a general way) in the text.

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Third Sector Research Centre
Park House
40 Edgbaston Park Road
University of Birmingham
Birmingham
B15 2RT
Tel: 0121 414 3086
Email: info@tsrc.ac.uk
www.tsrc.ac.uk

Social Enterprise

What role can social enterprise play within the third sector? This work stream cuts across all other research programmes, aiming to identify the particular characteristics and contribution of social enterprise. Our research includes theoretical and policy analysis which problematises the concept of social enterprise, examining the extent to which it can be identified as a distinct sub-sector. Quantitative analysis will map and measure the social enterprise sub-sector, and our qualitative case studies will contain a distinct sub-sample of social enterprises.

Contact the Author

Dr Duncan Scott
Email: wdscott106@btinternet.com

The support of the Economic and Social Research Council (ESRC), the Office of the Third Sector (OTS) and the Barrow Cadbury UK Trust is gratefully acknowledged. The work was part of the programme of the joint ESRC, OTS Barrow Cadbury Third Sector Research Centre.