

# How Language and Communication Differentials between Social Enterprises and Economic Development Agencies Impact Financing

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This report is part of the work of this sub-node, which focuses on communication practices and tools within the social economy

### **Abstract**

Within the relatively new spectrum of social enterprise academic research, few have directly considered the potential problems of incongruent language and communication barriers when securing financing. This exploratory research seeks to identify communication problems experienced by social enterprise leaders in Newfoundland and Labrador when applying for financing, while similarly identifying the perspective of economic development agencies themselves. Individual interviews with social enterprise leaders across the province ( $n=7$ ) and with staff from economic development agencies including ACOA, INTRD, and CBDCs ( $n=5$ ) were conducted over the telephone and in person. Based on results of a qualitative thematic analysis, it is concluded that language

and communication may present a major obstacle for some social enterprises when seeking financing. Recommendations based on findings are made, including a focus on *language, education and communication* among all stakeholders to improve the general climate for social enterprises in securing financing. Social enterprises are recommended to involve a *financial expert* in all their business affairs, and to *seek education* in the area of business and finances. Consideration of current recommendations in conjunction with broader research in this area may enhance provision of important services by social enterprises around the province.

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## **How Language and Communication Differentials Between Social Enterprises and Economic Development Agencies Impact Financing**

Newfoundland and Labrador has a strong history of addressing important community challenges with volunteer work in the social economy (Community Services Council, 2008). Through a variety of non-profit endeavors across the province in areas ranging from health and wellness to arts and culture, to provisions of goods and services, organizations and individuals in the social economy work hard to meet important needs of the community that the mainstream market cannot independently serve (Enterprising Non-Profits, 2005). Many of these non-profits have developed businesses that focus not on the accumulation of profits, but instead on the regeneration of income into a particular community need. Referred to as social enterprises, these groups are “businesses directly involved in the production and/or selling of goods and services for the dual purpose of generating earned income and achieving or contributing to social and/or environmental aims” (Enterprising Non-Profits, 2005). This includes societies, charities or co-operatives that harness the marketplace to meet their community goals.

Social enterprises often rely heavily on grants or other non-repayable sources for financing (Brown & Murphy, 2003). Frequently they must turn to banks or other providers of finance, applying in the same manner as standard for-profit businesses for repayable loans, despite the fact that members are often unwilling or unable to provide the personal guarantees normally requested. Social enterprises, like all businesses, require some degree of investment for their ideas to succeed and expand (OECD, 2006), but they often encounter a higher rate of rejection than comparable for-profit businesses (Brown & Murphy, 2003). Although there are many examples of social enterprises in the province

that successfully secure financing in this manner, there are also a significant number of enterprises who encounter great difficulty despite their businesslike approach to banks and economic development agencies. This inhibits their ability to reinvest into the social economy and into communities. The situation has prompted researchers to critically examine the barriers faced by social enterprises when applying for financing, and to attempt to understand how these barriers can be broken down. Barriers include acceptable demonstration of cash flow and ability to repay debt, incongruity of social/financial aims and a general lack of knowledge of social enterprise, perceived differently among financial institutions and social enterprises.

### **The Current Research**

Within the context of supporting and enhancing ongoing social enterprise, the current research seeks to understand the relationships between language, communication, and the success of social enterprises seeking financing through banks and economic development agencies. Also, we aim to discover whether there are any negative ramifications for social enterprises that, for various reasons, experience language and communication breakdowns. Social enterprise literature represents a new area of peer-reviewed research, having been developed largely within the past ten years. However, a review of the business databases suggests that little to no academic research has focused specifically on the area of language and communication between those new to business in general and providers of finance. Language and communication differentials are emphasized as a component of findings, citing social enterprise leaders' difficulties speaking and understanding business language and jargon. However, these methods do not employ planned theoretical testing of the research question. Although this issue is not

directly addressed in the peer-reviewed literature, brief online searches make it clear that business writers are well aware of and concerned about language differentials between social enterprises and financial institutions. This is represented directly in articles or on web pages, or indirectly, in glossaries emphasizing the importance of learning, understanding and utilizing business and financial language to effectively present an image of success. For example, a number of documents identifying and clarifying a variety of ‘buzz words’ were located in the search, explaining that the world of business is a learnable language and culture (e.g., Handford, 2005; West, 2009), but yet pointing out the importance of learning to speak and write in an appropriate and financially engaging style (Thompson, 2009) rather than in an academic or socially-oriented manner.

To address the gap in peer-reviewed literature in this potentially important area of consideration, this research seeks to understand how nonprofits conducting social enterprise activities in Newfoundland and Labrador and the agencies that might provide financing are communicating and relating with each other.

### **Literature Review**

A recent blog entry by a noted social enterprise expert in the UK made specific reference to the current research question, explaining that “social enterprises and investors are failing to communicate with each other, as if they were talking in two different languages” (Schwartz, 2008). The writer felt that social enterprises focus entirely upon the social impact of their operation, frequently failing to address financial aspects of their business plan, whereas by obligation or by single-mindedness, investors focus completely upon financial returns. Little communication on either side (Lyon & Ramsden 2006) increases the likelihood of an unsuccessful business relationship between

parties, to which mismatched language likely contributes. Hines (2005) found that social enterprise participants were intimidated and inhibited by the business “gobbledegook” in documents and conversations. Individuals were passionate about the social aspects of their business but were not business-minded; yet financial agency staff spoke to clients in a manner inappropriate for those beginning in business, projecting the image of a lack of support from these financial organizations. Other social enterprise leaders refused to use business language within a culture of anti-commerce, further undermining their potential relationship with financial institutions.

Financial institutions are primarily accustomed to dealing with the for-profit businesses applying for financing. When presented with nonprofit social enterprises, they may find it difficult to understand this organizational structure (Brown & Murphy, 2003), in particular the issue of governance. In addition, a lack of understanding of business language and jargon does not help the case of a nonprofit social enterprise applying for financing from a unique background and with a social, rather than financial, objective.

Financial institutions discussed in the literature often reported a spectrum of readiness among social enterprise applicants, ranging from organizational preparedness no different from that of a comparable for-profit business, to those with little to no financial expertise and planning (Chapman, Forbes, & Brown, 2007; Wuttunee, Rothney, & Gray, 2008). Without a competent demonstration of the standard requirements of cash flow, good credit and ultimately the ability to repay the loan, financial institutions are unable to provide financing to these unprepared but well-intentioned social enterprises (Nicholls & Pharoah, 2008). Various researchers have found that financial institutions strongly supported financial education and professional business or financial involvement

to bridge the gap between the social and mainstream lending domains. Even those focusing on new for-profit businesses cited financial literacy as a major factor in the success or failure of a business (Berman Brown, Saunders, & Beresford, 2006).

Although little to no literature focuses on language differentials between social enterprises and financial institutions, it is clear from a review of related documents that language presents a communication barrier between financial and social enterprise groups (Fraser, 2006), warranting further study from a more narrow perspective. The following research seeks to address language and communications using a qualitative design to further elucidate shadows of knowledge in the literature, and to make recommendations based on interview findings to potentially enhance relationships between parties.

## **Method**

### **Approach and Design**

A qualitative design involving in-person and telephone interviews was selected for this study, to allow for an in-depth examination of pertinent issues that would be less accessible through quantitative methods. Qualitative methodology uses systematic, non-probabilistic sampling in which “the purpose is not to establish a random or representative sample drawn from a population, but rather to identify specific groups of people who either possess characteristics or live in circumstances relevant to the social phenomenon being studied” (Mays & Pope, 1995, p. 10). The use of qualitative methods (e.g., interviews and focus groups) is common in the social enterprise literature, given that comprehensive insight into application and decision-making processes is essential at the outset of exploratory research (Fletcher, 1995). Interview items were informed by a thorough examination of the language and communication literature, seeking to elicit the

everyday ideas and experiences of social enterprise leaders applying for funding, and the policies, recommendations and experiences of financial agency staff sought for this purpose.

### **Participants**

A convenience sample of seven *social enterprise* leaders from Newfoundland were recruited through business contacts of the researchers, including two from Western Newfoundland, two from the Great Northern Peninsula, one from Central Newfoundland, and two from Eastern Newfoundland. Backgrounds of the social enterprises included rental service providers, community health organizations and arts and culture-based organizations. Staff from five *economic development agencies* were interviewed, including three from Eastern Newfoundland, one from the Central region and one from the West coast of the province. Most were selected through convenient business contacts, however some were referrals from social enterprise interviewees. This sample included representatives from the Atlantic Canada Opportunities Agency (ACOA), the Department of Innovation, Trade and Rural Development (INTRD) and several Community Business Development Corporations (CBDCs), which are collectively in this report broadly referred to as 'Economic Development Agencies.' Although it would have been preferable to speak as well to banks involved in similar transactions, they did not meet our selection criteria of key informants. We were primarily interested in responses from people directly involved in on-the-ground financial negotiations rather than in institutional policy guidelines, of which we were informed that banks adhere to.

**Procedure**

Participants were mainly drawn through convenient business contacts of the lead researcher; however, using a snowball method of sampling, social enterprise participants were asked to provide the names and contact information of financial agency staff they had met with for potential financing. The researchers then followed up with and interviewed several of these individuals. The lead researcher initially contacted participants by telephone or email, explaining that the study was designed to explore the role that language and communication play in interactions between non-profit social enterprises and the economic development agencies they approach for financing. They were informed that the researchers were seeking to learn how these conversations (and relationships) work and if and how they break down, to explore the consequences of these breakdowns, and ultimately to make recommendations for the enhancement of communication and relationships. Interviews were primarily conducted over the telephone, given the geographical distance of most participants from the researcher, although some were in-person. Before beginning the interview, the researcher again outlined the aims of the study, emphasizing the confidentiality of data and anonymity of reported results. Initial items were broadly based and specific only to the individual's organization and its general experiences with attaining or providing financing, then narrowing toward those directed at language and communication. Notes were taken throughout the interviews and later were reviewed for the content and thematic analysis. Please see Appendix A for a copy of the financial interview guide, and Appendix B for the social enterprise guide. Due to the qualitative nature of inquiry, topics were worded

somewhat variably across participants and followed relevant tangents brought up by participants.

Individual interview notes were analyzed thematically as outlined in Green and Thorogood's (2005) discussion on generating and analyzing data, by initially searching for significant recurring themes and later cross-referencing these themes across groups. Themes were further developed, and inductive reasoning was used with interview notes, whereby unique themes emerged from the data that were not directly elicited. Once final and recurring themes had surfaced, notes were reviewed in order to substantiate initial thematic elements. Themes in the following results section address how communication and language between social enterprises and economic development agencies varied and coincided, and how this may have affected funding attainment.

## **Results**

### **Understanding and Perceived Understanding of Social Enterprise**

It was essential to determine, from the perspective of both social enterprises and economic development agencies, whether understanding and perceived understanding of the term 'social enterprise' was accurate. All economic development agency interviewees clearly articulated an accurate definition when asked. However, social enterprise participants themselves, in some cases, felt strongly that a lack of understanding of their alternative business structure seriously inhibited application success. They experienced problems in communication when speaking with financial agency staff, grounded in this lack of understanding which, from their perspective, was not a point of learning potential for the agencies but instead a point of obstruction, best expressed as 'hitting one's head

against a wall.’ Please refer to Table 1 for a breakdown of social enterprise participant’s basic experiences with applying for financing.

Table 1

*Social Enterprise Participants*

Participant	Experience With Funding	Financial Experience	Language a Barrier	Prepared to Communicate	Funders Understand
A	negative	yes	yes	yes	no
B	negative	no	yes	no	unsure
C	positive	yes	no	yes	yes
D	positive	no	no	yes	no
E	positive	no	no	yes	yes
F	negative	no	yes	yes	no

*Note: Views and level of experience expressed in this table are of the social enterprise participants. Also, Participant G is on the board of a social enterprise but is a financial professional, so is not included in this table*

**Social enterprises.** Although not all social enterprise participants interviewed felt that economic development agencies had a limited understanding of social enterprise in comparison with a for-profit enterprise, this was the overwhelming feeling expressed by half. Having experienced both rejection and acceptance by financial organizations, Participant F felt that the bank she dealt with had no clear understanding of the business orientation of her organization, nor did they wish to learn:

They could not understand that success is not being in the hole. Not 100% profit-driven. If we have adequate cash flow, we know we are doing what we need to do...what we *do* generate in terms of revenue is supposed to go into enhancing programs and services...the charity has to be financial viable but not profit-

driven...No. They didn't get it at all. No. Don't think they saw the value of the work. Treated us like any businessperson coming in.

She felt that not only were the banks unable to understand the broad nature of social enterprise, but the specific character of her organization. Conversely, the economic development agency that ultimately financed the project was both knowledgeable about the nonprofit sector, and willing to learn more:

The [accepting agency] did get us. They deal with nonprofits...We found that he was very detail-focused; we had to pull together a lot of information and backing. But conversations were good. They were open. We weren't left wondering. It was stressful – very – a finance guy. Very into the detail. That was what we required and we knew from day one. Very good at telling us what we would need to move forward.

Clearly, openness to communication on the part of the economic development agency was essential to the success of this application, whereas the bank's lack of understanding and willingness to learn resulted only in tense moments and frustration, for some period of time, for this group.

Having experienced years of failure in securing financing for her expanding organization, Participant A was most frustrated that even a strong record with her nonprofit's bank did not break down the barrier preventing them from understanding the nature of social enterprise:

As a social enterprise – we've proven ourselves ten times over that we can meet the financial obligations that we have. But because we weren't private and weren't willing to sign a personal guarantee – banks would not look at us. Put them (social enterprises and for-profit) all into one bowl...They don't see – they [have] tunnel vision. They can't see. We're different. Because we're different, they can't see – they're trying to fit us in the same mould.

Because social enterprises aim to create income for reinvestment into the nonprofit organization itself, rather than for private gain, communicating the value of social enterprise outcomes to banks and economic development agencies can become very

difficult. Several participants discussed this within the context of defining a social enterprise, explaining that funders may judge the acceptability of proposals based on standardized financial criteria; many of which cannot be met by social enterprises.

Many social enterprises, or groups with social cause, don't have real property or real collateral. Funders want collateral; something they can take back if things don't work out. They need to consider the depth of operation, scope of programs, history, and ability to do what you say you are going to do.

Participants spoke about their organization's depth of community importance, and how difficult this is to communicate to economic development agencies and banks. "As government devolves, community groups step in to deliver programs to communities – the social mission needs to be fulfilled." However, this cannot in all cases be translated into dollars and cents in a manner consistent with financial mandates, potentially resulting in failure to achieve financing on the part of social enterprises.

According to Participant D, not only do banks and economic development agencies not understand what a social enterprise is and how it differs within the business model, but neither do the government, the general public or even the nonprofits that run social enterprises themselves.

I'm not sure anybody does [understand] – I would argue that government doesn't entirely, not even all nonprofits – not one big blob, not all alike...I don't think that those things are really clear – I think there is a huge amount of work that needs to be done for people to understand what the role of the social enterprises are, what the impact is economically, and many times socially, and in our case culturally as well. I don't think it's clearly understood; the sacrifices people make. No pension, don't own anything – enormous hours of work are never compensated. It is not understood. The perception is that people who operate nonprofits get money from the government and are doing great. They don't understand that this money doesn't go to their salaries. It goes to the company; employing people. So lack of understanding is really enormous. Certain government programs that you can't apply to because you are nonprofit – even though, you are operating like a small business.

It is clear that there is a real belief held by many social enterprises that banks and economic development agencies, and in some cases other individuals as well, do not understand the nature of social enterprise, and that no amount of communication between parties will amend this problem. Interestingly, two social enterprise participants did *not* feel that this was the case, identifying a good level of understanding of social enterprise among economic development agency staff. In one situation, the financial institution, which had close ties with the social enterprise itself, actually initiated the financing negotiations. However, other participants spoke exuberantly about the lack of understanding and imperviousness to communication of most banks and economic development agencies.

**Economic development agencies.** Although it was clear that some social enterprises felt that banks and economic development agencies did not understand the nature of social enterprise, all who were interviewed for this study very clearly understood and explained the distinction between for-profit businesses and nonprofit social enterprises. They were aware that their aims are unique and not profit-driven, and instead work toward meeting social, cultural, or environmental goals. Several staff members openly acknowledged their limited experience in dealing with social enterprises, yet were keen to learn more about those in their local community and potentially entertain more applications for financing.

In most cases, they recognized the added community value provided by social enterprise ventures; however, they were often limited by rules and regulations set out by their organization in factoring these benefits into financing decisions. Financial agency staff largely emphasized the importance for social enterprises to focus on the financial

plan in a businesslike manner, regardless of their social aims. Several participants explained that they made specific minor concessions for social enterprises applying for financing, which in one case included separate programming for community-based rather than profit-driven businesses. Other financial participants identified allowances such as a removal of the personal guarantee requirement, a 1-2% discount off the regular interest rate schedule to allow community reinvestment while still receiving a reasonable rate of return, and even general latitude to work within policies to make the application succeed. Other agencies were not able to look at social enterprise applications any differently from those of for-profit enterprises. They relied on financial aspects such as the business plan, human resources, credentials of board members, and, ultimately, on cash flow enabling debt repayment. However, all participants clearly explained that social enterprises meeting such standard business criteria were perceived no differently from comparable for-profit small businesses, leading to equality in lending opportunities. When defining and discussing the nature of social enterprise given their experiences with such clients, financial participants unanimously identified a wide continuum of knowledge within social enterprise applicants. On one hand, as one representative participant explained:

Some social enterprises that we deal with are very effective and up-to-date on business practices, bookkeeping – so within that group that you define as social enterprises – there is a big difference in sophistication and business model. There are both extremes: some don't have a business plan, proper bookkeeping – focus on (social) service is the mindset. Others have good bookkeeping, policies and procedures, marketing plan, focus on providing a program or service for the community but are doing so in a businesslike manner.

Another financial representative recognized, in defining social enterprise, that enterprises on both ends of this spectrum have similar goals and will potentially start an income-

generating enterprise, but that the level of understanding of financial requirements is completely different:

One side, on their board, they have an accountant and a lawyer. They have a strong grasp of what the organization has to do become successful; financial obligations. On the other side, all they do is keep their financial information in accordion folders.

This continuum, unprompted by the interviewer, was expressed by *all* financial participants when discussing or defining social enterprises, and should be an important point of consideration for social enterprises wishing to attain financing.

In summary, it appears that those interviewed in this study who work for economic development agencies rather than for banks are well aware of the distinctive nature of social enterprise, and attempt to work within their internal limitations to assist financially viable businesses. Unfortunately, the *actual* and *perceived* understanding of social enterprise is in some cases distinctively in opposition, leading one to wonder where the disconnect lies. Rather than focusing on this question, however, it may be more fruitful to emphasize increased communication between the financial and non-profit sector from a general perspective, thereby potentially enhancing perceived, and in some cases actual understanding of the unique nature of social enterprise.

### **Language and Communication**

Because language used in the discourse between social enterprises seeking financing and the economic development associations they approached was a key component of this research, many items in the interview guide addressed this topic. Despite the lack of literature specifically in this area, the current research suggests that language and communication may play important roles in the success or failure of social

enterprises in securing financing, reflected from both the perspectives of social enterprises and the economic development agencies they seek out for financing.

**Social enterprises.** Table 2 presents a breakdown of social enterprise participants who felt that language barriers were obstacles in securing financing, presented in terms of participants' previous formal financial training and experience. Half of those interviewed felt that, in their experience, language was a real impediment between those social enterprises seeking funding and the institutions they approached, one of whom had extensive financial experience prior to working in the social economy. Half of the interviewees frequently felt intimidated or overwhelmed by the business language, terminology, and jargon used by financial agency staff in conversation and in text (e.g., in paper applications). This demonstrates that there is no clear relationship between previous or current experience in the financial sector separate from the social enterprise and the perception of language as a communication barrier.

Table 2

*Language as Barrier to Social Enterprises*

Participant	Financial Experience	Language a Barrier
A	yes	yes
B	no	yes
C	yes	no
D	no	no
E	no	no
F	no	yes

One participant reflected on the essence of the problem, suggesting that:

I don't know if the language differs, or if it's a *different language*. We use different language to describe same thing...we had to learn a whole new set of terminology. And what is a social [enterprise]? What is a social mission? What is the value – how do you put a value on the social work that you do? What is the value that you see in it – how can you make them see that value?

Other participants reflected upon the use of language to obscure straightforward meaning in applications for financing, resulting in discouraging confusion and loss of precious time for volunteers:

Yes. It does come down to language...They are using all the accounting terms, they talk in accounting language. Not the trouble of getting the money in the first place, but the problem of filling out the forms, applying for the advances and updates, 30% of this, 10% of that, this is eligible, that is not. So the criteria, of which language are a part...They are accountants so they are talking accounting language, and they understand that. And we are not accountants so we don't understand that.

Another participant, despite her financial background, expressed similar sentiments in terms of important communication with the rest of her social enterprise, in particular, with the board of directors:

PARTICIPANT A: They get into things that – like, as an employee, I've got to explain to my board things – the board is looking [at me] like, "What are you talking about?" They don't talk in your language; they don't have it in plain language.

RESEARCHER: Would that make a difference [to the board]?

PARTICIPANT A: Oh, definitely.

This was reflected not only in the direct language used by economic development agencies, but also in particular in the expression of organizational goals and mandates. In contrast, social enterprise participants were concerned only with language about social benefit, which was articulated by most:

Because a business person talks more on making profits and that, right? Where we were talking more on providing service. When financial statements come out, our profits go into renovations, additions, and higher wages...Whereas if we had a private business, profits would go back into the board of directors' pockets. Shareholders or whatever.

Unfortunately, several participants felt that differences in language in some ways inhibited their organization's ability to secure financing, emphasizing not only the importance of using financial jargon, but current financial or government-endorsed 'buzz words':

It [language differences] would have a negative impact because – we've tried to get funding from ACOA and INTRD – to have a coordinator. All these years – say we need a coordinator. But they don't fund [for] coordinators. So if you go for 'events development specialist' – they are using that word now – maybe you can get some funding and talk about it this way. But we didn't know that term. Before, we were looking for funding for a 'coordinator.' They don't know that term. If you use 'Events Development Specialist.' – So it is a barrier if you have to use proper wording. Have to couch your talk in the language – doesn't come with a dictionary and glossary, and the definitions change every year at the meetings behind closed doors. They change their mandates often – when government changes, they change what they try to do. So from Ottawa to ACOA, INTRD – as governments change, mandates change; it trickles down. Whereas ours doesn't.

In this manner, this participant felt that language and terminology reduced the social enterprise's chances of actually securing financial assistance. Participants felt that this disjointed language and jargon intentionally created a barrier that banks and economic development agencies could use to deny access to funding. They contrasted this with the clarity and transparency with which social enterprises must always use when, in their own roles, they are communicating directly with their community:

Because us as a social enterprise, we're dealing with the community; we try to make things as simple and basic and easily understood as possible. I don't think that they [banks and economic development agencies] do that. When they come out with a funding program, this money is for this. "Oh, we want to do that, that fits," they say they want to promote community development through arts and culture – that's what we're doing. So we apply. Then they come out and say,

“That’s not what we mean.” So we try to be as clear and understandable when dealing with community – need to be clear to have trust. Agencies – when they say one thing, they mean something else. We end up feeling that they use language to create a barrier rather than build a bridge. They can say, “That’s not what we meant when we said that, we didn’t mean that.” When *we* deal with the community, we better mean what we say. The community will hold us accountable for the programs we provide. We are going to be held accountable. Funding is not accountable to them, only to higher up [people], even though it’s our tax dollars. Not accountable. So they use language as a barrier.

Ultimately, social enterprise participants often felt that language was used to blur the lines of communication between social enterprise staff and banks and economic development agencies, resulting in a discordant understanding for both parties involved:

[We are] not talking the business language; [they are] not really saying what they mean. They say they fund this. But that’s not what they do. Not straight about their mandate. That’s what it seems like.

It is clear that from the perspective of nonprofits looking to secure financing to advance their social enterprise, language differentials between the enterprises themselves and those to whom they look for financing present an often-impassable barrier. Without the use of plain language, as recommended by participants as an important solution to this problem, it appears that social enterprises may have real trouble finding funding, in part due to a lack of use and understanding of business and agency jargon. Or, those who succeed may spend significant periods of volunteer time working to understand, manipulate and use the language of economic development agencies.

However, not all social enterprise participants felt that differences in language were a problem for social enterprises trying to secure financing, regardless of any background in the financial sector. Instead, several felt that language differences existed but were not problematic, or that they did not exist at all. Participant D agreed that

language differentials existed between social enterprises and financial institutions;

however, she did not see this as a serious impediment in the process:

I suppose to some degree – if you're a nonprofit the language is different than profit. But I don't know that the language is necessarily the problem. You might have to explain what investment in a [social enterprise endeavor] is as opposed to investment in research and development. But I'm not convinced that the language – all kinds of foolish language in bureaucracy is meaningless. Hot ticket – the way you put things are different from year to year.

She felt that 'buzz words' varied from year to year, but did not see language as the root of the problem. Similarly, other participants agreed that the use of business language by leaders of their social enterprise was an expected and endorsed component of funding applications and in-person meetings with agency staff, whereas others were lauded for speaking in plain language. In summary, participants were divided on the issue of language as a core obstacle for social enterprises in securing assistance from financial institutions, regardless of financial background.

**Economic development agencies.** Are there similar differences in language, terminology, jargon and communication when reviewing a social enterprise's financing application, from the perspective of financial agency staff? One financial representative began his interview by telling a story about his daughter and her peers, who, as business students, were applying for financing to assist a social enterprise in its endeavors. Upon receiving a letter requesting an 'economic benefits plan' his daughter became upset, perceiving this to be an extensive document, similar in scope and effort to that of their business plan. Fortunately, he was able to explain to her that it was not. However, most social enterprise applicants who do not have even a basic business background would not have this luxury. The participant explained that, as economic development agencies,

We have language that means things to us that doesn't mean things to anybody else in the world. Are there any barriers in language, I'd say no. But I'm not always certain our clients understand...So it taught us a lesson; it's one thing for a letter to go out, but somebody needs to make sure that the person on the other end *understands* what we're asking for.

Clearly, as identified in this example given by Participant 4, language used by economic development agencies often varies from that of the everyday lexicon of social enterprise applicants, resulting in communication breakdown. Participant 4 further explained that in situations of power differentials, applicants might be hesitant to ask for the needed terminology clarification for fear of appearing incompetent. Participant 3 similarly emphasized the need for explanation rather than simply making requests for information: "Remembering that it is not enough to ask for information, you need to *explain* [what you are looking for]. Then they realize 'Oh yes, we know this, we just didn't know what you were asking before.'" This enhanced level of communication reduces the barrier between parties, potentially enhancing the understanding of financial requirements and expectations on the part of the social enterprises.

Given that language, in general, appears to present a real communication problem according to the majority of participants interviewed, what then are the specific problems in communication, and what ramifications does this have for applicants? Financial participants explained that there is likely certain wording typically used that social enterprises are not familiar with, which can intimidate clients without the person realizing that they are doing so. For example, terms such as 'balance sheets,' 'GSA,' 'security documents,' 'competition,' 'sustainability,' 'viability,' and 'economic benefits plan' were among those listed as potentially intimidating and confusing for applicants coming from a socially-oriented background, as well as required procedures such as filling out

applications and forming a business plan. One participant even mentioned the large variety of acronyms readily used by financial agency staff, which may take a whole month for their full-time hired summer students to learn, understand, and utilize. This, she felt, was analogous at the macro level to the problems potentially faced by volunteer social enterprise applicants, who do not have a month of exposure to learn to communicate with and understand financial jargon, but instead must competently do so from the outset.

Although sympathetic to the barriers faced by a variety of social enterprises and cognizant of their own roles in this problem, economic development agency staff placed significant responsibility on the social enterprise to become familiar with such terms, either through research, board development, or being open to asking questions.

Participant 2 suggested that:

I think the social enterprises probably, even though they are social enterprises, need to make sure they use proper business terminology, proper assessment and a proper business case. I do think...that social enterprise still should have and practice appropriate business practices and protocols...There's still some [financial] training and mindset training that are needed with volunteers. They have to understand that it is a social enterprise, but the business model and business practices need to be incorporated. They need proper bookkeeping, accountability, a marketing plan, good HR management, technical – whatever service they are providing they need to be doing so effectively and efficiently...The client group still would have to demonstrate that at some point, they are able to incorporate proper business practices and savvy if they were to do financing.

This representative quotation emphasizes the importance economic development agencies place upon the business knowledge and preparedness of social enterprise applicants, regardless of language difficulties that they encounter.

Participants representing various economic development agencies were clear that their agencies were partly responsible, to some degree, to speak in plainer language and

to make their communications readily available to the social enterprise unfamiliar with business practices. One participant mentioned that:

The onus is on funders to talk in as plain terms as possible to avoid that. I think you have to be aware that there can be a broad range of clients, have to adjust how you're doing that. Compare it to when we started with loan programs geared to young entrepreneurs. Starting their first business – they had such a different level of understanding. They were very smart and had good ideas, but were overwhelmed. We had to be aware of this and scale back how you approach the client. You never want to treat a client in a way that you make them feel like they don't know enough, just because how you explain it.

Although, she also added that:

On the other side, it is not just simply not communicating clearly so both parties understand. It could be that non-profits really don't understand exactly what is required of it. Don't have the competency, don't have the financial background to know what's required to successfully operate or run a business properly.

This illustrates the importance of integrating both plain language on the part of the expert, and financial literacy on the part of the client, to create a more cohesive and productive level of communication between parties.

Although the majority of economic development agency participants believed that financial language presented a barrier to social enterprise applicants, several did not feel that this was a problem. Happily, this is likely due to their experiences with social enterprises that were financially organized and knowledgeable, or had specific volunteers or board members who were, thereby eliminating any major language or communication barrier. These participants were easily able to recognize and meet the needs of social enterprises seeking financing and to develop a plan within the financial organization's parameters. Participant 5, in response to a question about whether language differed between organizations, said:

No – because I was dealing with the board, who had professional financial backgrounds; credentials. Not all had financial backgrounds – some were

teachers, community-minded people – they used the experience at the table – the financial professionals spoke the same jargon. Another thing that made my job easier – they were very well prepared and organized. I tip my hat to the volunteer side, and strong management. Because the volunteers introduced me to their local mandate, history, what they were about, its contribution – I found that to be very advantageous, as I can then speak to them at the same level. The members of the board deal with financial institutions every day

This statement represents those economic development agencies that are used to dealing only with social enterprises on the financially-prepared end of the spectrum.

In summary, participants from economic development agencies indicated that in many cases language does present a serious communication barrier that can prevent or inhibit social enterprises from successful funding applications. Although the onus was in part readily taken on by participants to consistently *explain* terms and requirements rather than simply asking for them, it was also identified as essential for social enterprises to learn the language of finances, or to incorporate a professional who already does. One economic development agency participant effectively and representatively mentioned:

We do have a different language, and we need to recognize that we have – we see the world through a different lens. And for the most part we're taking commercial notions and applying them in the social environment. Most of the people we're talking to are more social in orientation. There does need to be some kind of...I need to reinforce to our staff that the words we use aren't the words that everybody uses. And what needs to be reinforced to our [social] organizations, if somebody asks you for something and you aren't quite clear you probably better ask...there is a subtlety: if we are crossing the divide between financial and social, both sides need to be cognizant of this difference.

This illustrates that language and communication between both parties is an essential component of the economic development agency-social enterprise relationship, identifying a need for enhanced language on both sides as a potential solution to the problem.

**Significance of Financial Expertise**

Participants interviewed from both economic development agencies and social enterprises all agreed, without exception, that financial literacy and expertise was a critical component to the success of a social enterprise's application for financing. Both sides recognized that the real strength of applicants typically lies in the social realm, and in writing funding applications directed at organizations with social mandates. However, this did not replace the need for professional financial knowledge in both preparing applications for and communicating with economic development agency staff.

**Social enterprises.** It became clear throughout the interviews that differences in language and communication, in some cases, present a serious barrier to social enterprises attempting to secure financing. However, key informant interviews suggest that this was not because of a lack of financial knowledge or background on their part. Conversely, several participants themselves were currently, or had previously been employed in the financial sector, and those without this background consistently ensured that financially-trained members of the board or other volunteers were present during discussions with financial institutions. This was an important point of consensus among all interviewees, given that the social enterprises in question offer diverse products and services across different parts of the province. For these reasons, participants unanimously felt that they were prepared to effectively communicate their financial goals and needs to funding sources, but yet some were prevented from doing so because of external barriers that they felt were put up by the financial institutions. One participant, who had worked previously in the banking industry, felt prepared to communicate with

the various financial institutions but yet perceived an inability to communicate on their part:

Like when they talk about ratios and things like payback, I know what they're talking about. And equity into it...If I didn't have the financial background, I think it would be work [to understand]. Because they don't talk in your language. I know how to talk to them when we approach the bank. Because I've been on the inside looking out. Whereas a lot of people applying for funding have *not* been on the inside looking out. So I think people give up.

Similarly, another social enterprise participant felt entirely capable of discussing financial matters with prospective financial agency staff, despite her lack of experience in the financial sector. However, she felt there was the lack of communication and understanding from the other side of the table that prevented her from effectively communicating her financial goals and needs: "I didn't ever feel like they were talking over my head. But, I had difficulty making them understand." Other participants – both with and without financial backgrounds – felt that they were fully able to communicate their financial goals and needs to funding sources, perceiving no inhibiting barrier between groups.

Although not all social enterprise applicants had a financial background, as discussed and represented in Table 1, all participants strongly felt that financial literacy was essential when making applications for financing, and sought out expert volunteers to play a role in this procedure when necessary. Financial experts were perceived as important because they added credibility to the organization, were able to fluently speak in the financial language, and could act as a broker or translator between parties.

Speaking from the perspective of both an accountant and a volunteer within a social enterprise, Participant G felt that those social enterprises who were serious about success

would seek out expert financial advice when applying for financing, despite their main focus on social change:

What I've experienced from social organizations and so on, given that the majority of social enterprises are formed to a large degree because a certain group of people have a certain interest in doing something specifically for the town in which they reside in. So with that being said, usually social groups are able to obtain the source of expertise without incurring or getting into high costs...I think that if the will of the group is fairly strong in their ability to think that financing is something they really want to do, then if they don't have a strong financial person onboard, they will try to have someone financially on board to succeed. I think for the larger social groups...you always have a case where professional accountants like myself are involved because the exposure of risk to the director of the boards increases the risk, and therefore they refuse to move forward without the expertise of professional accountants, lawyers etc.

Other participants articulated similar thoughts, speaking as individuals with strictly socially-oriented backgrounds but who equally endorsed the importance of financial expertise. Participant F, who had a background in physical education, community recreation, development and French, set up a side committee consisting of three chartered accountants, who "crunched the numbers" and were able to communicate to the banks and economic development agencies in their language. She would ensure, at all times, that one of these accountants would be involved in her meetings with the financial institutions. "Budget, I can do. But in terms of talking in accounting terms and doing the big forecasting and such – that was something that we would seek advice on." She felt that this expertise and added financial credibility made a difference when speaking with the two financial institutions to which she applied for funding and to the relationship she had with them. Participant B related this point at length:

We have one person – she deals with all these people. Apart from that, I don't know how we would survive as you really need to know how to talk to these people – we don't, but she does...She is on different boards, the rural secretariat, the development association – she gets exposure to this type of language. Our first coordinator – was with the development association...was really good at

preparing for applying for these things. He talked very clearly, hearing him talk to them and then hearing him explain what he was looking for when they were applying – it was almost like having somebody as some kind of broker in social agency and financial people. Those two were like a broker or a translator...Need this [a broker] as a social enterprise to achieve funding. When you are going to look for an insurance policy, you go to broker. So you almost need somebody like that when applying to these agencies; people who could be brokers between the financial agencies and social enterprises. Sometimes the agent with INTRD or Service Canada has that. But ACOA don't have a presence on coast. They become the broker: "Don't say it this way, say it that way."

Participant E, who was self-reportedly incapable with financial matters, said that her organization "couldn't live without" their accountant/office manager/bookkeeper, concisely summarizing the argument towards investing in the hiring of a financial expert, or seeking a volunteer board member with this type of background. Interestingly, Participant G, the accountant, mentioned that his financial expertise is frequently translated into becoming the "finance person" in a variety of social enterprises:

You could find someone who finds it [finances] interesting, goes into it more and more. I'm on a number of boards, church groups to national park associations and so on which are volunteer positions. And you – (laughs) – All these organizations that I'm involved in – I'm currently the treasurer of *all* of them!! When you come through the doors with those credentials, you're labeled. Adds credibility of having CA behind its name to the whole organization.

In essence, all of the social enterprise participants interviewed, regardless of their level of knowledge in all matters financial, felt that investment in a financial expert places the social enterprise at an advantage when seeking financing. Without this, as articulated by Participant G, the business demonstrates that it is not serious enough about achieving their social mission to holistically consider *all* aspects of the application process, not only their social mandates.

**Economic development agencies.** Participants representing economic development agencies strongly emphasized the importance of financial literacy or

financial expertise on the part of social enterprises when discussing financing options. They felt that some level of financial training, above and beyond that which everyday people have to deal with in their personal finances, was essential to success. On the other hand, the difficult, expensive and time-consuming nature of training volunteers in matters outside of their primary social interest was recognized. They felt that although basic financial literacy of all core members was important, the investment in a paid worker or board member with a financial background, particularly in accounting, was advantageous. Without an individual to communicate on a financial level, speak the required jargon and language, and properly organize finances, social enterprises were significantly more likely, they felt, to fail in their attempt to secure financing and potentially in their business. Those who did not see this as an obstacle were participants who had strictly dealt with social enterprises meeting these criteria, reducing or eliminating any communication problem between economic development agencies and social enterprises coming from different backgrounds. Participant 4 felt that:

If a non-profit came for funding and nobody had financial expertise or background, they probably are not going to get very far... There needs to be somebody that can do it, because that's how the world works. That can vary, by level of sophistication of what they are doing. So that needs to be there, and if they don't have it, it's highly unlikely they will get funding; it will become a fiasco in waiting. So there's all of that. So it's not just the language. Would have to be some degree of financial/accounting/business sophistication. Having someone educated in that area.

One financial participant, who had worked with rural Newfoundland nonprofit organizations in the past, recognized that established social enterprises often have good access to professionals such as accountants and lawyers in the community, who provide financial advice and management free of charge. "A business without financial capabilities," she said, "are usually the ones that fail. They don't understand their books."

In addition to the importance of financial expertise for the purposes of organization and communication with financial representatives, participants emphasized the added financial credibility of having experts involved with the group. The inclusion of financial experts tends to round out the social side of the organization, resulting in a likelihood of organized finances and in adequate cash flow for debt repayment.

As an accountant involved in a variety of social enterprises, Participant G emphasized his important role in setting these organizations on the right track in terms of preparation for borrowing. He felt that:

Without the expertise of professional accounting, all business-social charitable organizations or whatever are very limited to their knowledge and ability to move the organization ahead in the right direction. There are limitations – without the expertise of people like ourselves, there's absolutely limitations. If they don't have the ability to present the information, financial information/data in a form that is acceptable by a chartered bank or other financial institutions, their probability of obtaining financing is greatly diminished. That without financing they are not able to grow, not able to move on with plans. So – without stuff being presented, in accordance with certain guidelines, their ability to access certain funding is not going to happen. So they are very limited and the institutions will require them to seek out professional help, but overall if that's done they are back in the saddle again. If its not they sort of die by the wayside.

In addition, he felt that the involvement of a financial expert would create more of an appetite for the economic development agency to provide financing, with the increased credibility offered by a chartered accountant or businessperson. Although he felt that the financial literacy of volunteers could be developed, increasingly stringent accounting regulations in Canada combined with a more socially-oriented interest on the part of the volunteer recommends the necessity of financial expertise. By bringing an accountant or other financial expert on board, social enterprises not only prove their credibility and serious intentions to economic development agencies, but are able, to some degree, to overcome the barriers of an inability to communicate in financial language.

## **On the Periphery: Distance from and Connections with Economic Development**

### **Agencies**

**Social enterprises.** Rural social enterprise participants reflected upon the distance of their community, both literally and in terms of level of understanding, from those centralized financing institutions. Without the assistance of their economic development agency on the ground, one participant reflected, it is nearly impossible to effectively communicate with financial institutions and to help them accurately perceive the background in which rural social enterprises are grounded. Those organizations that had a representative living and working in the community, she felt, had an understanding of both their organizational mandate and inherent contributions to the social fabric of the area, aiding more straightforward communication between both parties. Those who were based in St. John's or other larger centres, she felt, were not aware of what they are "other than a hole in the ground." She perceived that this lack of proximity to their remote and rural context did not allow the financial organizations to understand what they are trying to do. "If they don't have somebody here to see, they don't know what they are talking about." When this particular social enterprise thought that they were going to lose the local representative of one of the major economic development agencies, they became very worried:

If we had to go to [nearest city], and talk to somebody about the project any time we need funding, it is way less do-able, they wouldn't know what we are talking about. They don't know people; don't know the history of the project. [Nearest city] is the major contact centre but it is far, and not rural. Things work very differently. Cities can't understand.

When later asked for suggestions on improved communication between social enterprises and providers of funding, she felt that having more people on the ground in rural and

remote areas would greatly enhance the attainability of funding, but similarly noted that accountability of these economic development agencies is not to the communities but to those “higher up,” making implementation of local coordinators far less likely. Along this vein, Participant A, who worked in a remote and rural portion of the province, was confronted with the problem of “not being rural enough,” which ultimately placed them out of the target area for financing, whereas nearly-identical organizations in Labrador received substantial funding to provide similar services.

On a divergent line of thought but within a similar context as above, Participant C encountered no problems in attaining financing, primarily because of his organization’s close business relationship with the economic development agency in question. Rather than being forced to justify requests for funding that otherwise may not have been perceived as essential by agency staff, they immediately recognized the organization’s need for financing, and were able to successfully arrange funding for this group. This substantiates comments of others wishing for on-the-ground economic development agency staff who then ultimately understand the context in which the social enterprise is working, perhaps resulting in enhanced chances of securing financing. However, as noted in previous examples, this is not always the case.

**Economic development agencies.** Although this is less of an issue from the perspective of the economic development agencies, closer proximity to social enterprises resulted in enhanced knowledge of and communication between social enterprises and those economic development agencies. One mentioned golfing with the board member of a social enterprise, prompting the initiation of future financing arrangements. Others mentioned the ‘small community’ aspect as a benefit, in terms of simply knowing other

people from around the town, whereas in larger city centres this is less likely to occur. However, it is important to note that one financial representative identified being in a small town and peripherally knowing a variety of individuals outside one's place of work may enhance financing, or, conversely, it may inhibit it, depending on reputation and expectation.

### **Banks vs. Economic Development Agencies**

Although this analysis is primarily concerned with communication and language between social enterprises and economic development agencies, the distinction was often conversationally made between banks and other sources of financing, suggesting that banks are perceived to present a significantly more challenging obstacle than the others in terms of communication.

**Social enterprises.** From the perspective of social enterprises, banks are on nobody's side, and are perceived as inflexible within their criteria for financing. One participant discussed a checklist that was used during a meeting, and without receiving all checks, the organization was not considered for financing. Despite an excellent history with the bank, including regular repayment of previous loans and good credit, several participants were shocked to discover that their bank would not consider their application, and in some cases would not even read their business plan. Similar sentiments were expressed by a variety of participants, emphasizing the important distinction between banks and other sources of financing in terms of their lack of communication. Economic development agencies, although strict in mandate, were noted for relative flexibility with regulation.

### **Discussion**

This research sought to assess whether communication barriers between social enterprises and economic development agencies existed; and if so, to what extent this impacted the success of applications. A review of the literature has located a variety of research that in some ways touches upon language and jargon as problematic in communication between financial organizations and social and/or new business enterprises; however, few focus their research questions primarily upon this topic. That being said, a quick Google search using key terms such as ‘language,’ ‘communication,’ ‘small businesses,’ and ‘social enterprises’ suggests that non-peer reviewed articles have identified the problems language and communication may create in accessing financing for those new to the financial arena in comparison with older, more established enterprises. Conversely, they may specifically target new enterprises, emphasizing the importance of financial literacy or presenting a glossary of terms and a discussion of financial areas deemed important in preparation for business endeavors. Given the paucity of academic literature focusing on this specific area, as far as we can tell, our present research emphasizes a new and important point of consideration when examining the variety and interaction of barriers that may inhibit application success.

Interviews with key informants on both sides of the financing deal identified the existence of language and communication differentials, for the most part suggesting that they play an important role in the broader realm of application success. Social enterprises often felt that economic development agencies expected them to understand and to use the business and finance jargon frequently employed during meetings and throughout financing applications. Alternatively, the economic development agencies near-

unanimously felt that social enterprises were in some cases not financially literate enough to effectively communicate their goals and needs. Although some interviewees on either side did not feel that this was a problem, this often stemmed from a specifically positive financing experience or involvement of financial experts, resulting in clear and successful communication between the parties.

Consistent with the literature (Fraser, 2006), the current research finds a disconnect between the perceived understanding of agency staff from the perspective of social enterprises, and the actual recognition of the alternative business model. Participants in the social enterprise sample often felt that, from a broad perspective, the majority of financial institutions they had approached did not understand the nature of social enterprise. They felt that they could not make the distinction between comparable for-profit enterprises and those with social aims, placing their group at a disadvantage and often resulting in the failure of the application. Social enterprise participants largely believed that it was difficult, if not impossible, to effectively articulate their community benefits when asked to address standardized criteria in applications. Despite their best attempts, many believed that financial agency staff – including both banks and economic development agencies – did not attempt to listen, to understand, or to think creatively about how these added benefits were, in fact, financially and economically significant, consistent with the Canadian findings of Wuttunee, Rothney, and Gray (2008). Social enterprise participants were often shocked at this lack of understanding on the part of financial institutions despite their enterprise's impeccable and long-term financial record. They cited a major misunderstanding of social enterprise on the part of not only the financial institutions but also the general public and even social enterprises themselves

(e.g., Brown & Murphy, 2003; Hines, 2005; Hynes, 2009; Jones & Keogh, 2006).

Without a general awareness of social enterprise as a business model rather than as strictly a charitable organization, participants felt communication with financial organizations was largely inhibited.

Results suggest that economic development agencies, however, do not agree with this assessment, instead clearly citing and explaining the distinction between social enterprises and for-profit enterprises (Fraser, 2006). An important continuum of knowledge and communication ability appears to exist, as economic development agency staff identified social enterprises that were as prepared as any business to speak and understand the financial language, and others who were not. Despite financial preparedness on the part of social enterprises, agency staff emphasized that the agency is sometimes unfortunately restricted by their own policies from making concessions to social enterprises and incorporating their added social value into lending criteria. Other economic development agencies identified concessions or programs that targeted social enterprises specifically (consistent with Wuttunee, Rothney, & Gray, 2008), citing the success of these interventions, but in some cases they lacked social enterprise applicants.

As a central theme of this current research, language appears to play a significant role in the success or failure of social enterprise applications for financing (Brown & Murphy, 2003; Fletcher, 1995; Fraser, 2006; Handford, 2005; Hines, 2005; Hynes, 2009; Lyon & Ramsden, 2006; Munoz, 2009), as cited by the majority of participants. Social enterprise participants often felt intimidated by the jargon, business language and terminology used by agency staff in discussion and in text, stating that it tended to obscure straightforward meaning (Hines, 2005). They felt that without couching their talk

in the constantly-changing language of 'buzz words' and financial jargon, their applications were not seriously considered. Participants often felt that financial organizations used their language to create a barrier, and not to build a bridge. Without the use of plain language, they felt, social enterprises may continue to have real trouble securing funding; or that to be successful, they would have to invest significant volunteer time in learning the required language. However, there was clear division in response to this item.

Although many cited language barriers between groups as a significant source of tension and communication problems, others did not feel that this was the case. The distinction in feelings about whether language and communication create barriers between groups is an important point for future research, which may seek to identify factors associated with financial organizations perceived as using jargon to hide their mandates or to deny funding, compared to those perceived to speak plainly and to be open and helpful to social enterprises in developing their applications.

The majority of economic development agencies interviewed agreed with the social enterprise participants. They felt that the language used by economic development agencies often differs from everyday lexicon and that it is unhelpful to those applicants new to the business realm, consistent with Munoz (2009). They realized that words and phrases could be unintentionally used to intimidate, and often require explanations rather than simply jargon-laden requests for information. Most were very sympathetic to the barriers of language between both parties, and were cognizant of their role in the power differential between applicant and agency staff. They felt that in many cases the onus was

on them to speak to clients in a plain and equitable language, rather than potentially making them feel inadequate in their business potential.

Despite this important concession made by nearly all economic development agency participants, they also felt that, for their part, social enterprises must demonstrate financial awareness, business knowledge and preparedness. To identify whether financial viability is present, the communication difficulties must be overcome on both levels. In order to properly run a business, they felt that it is essential for non-profits to have the capabilities to understand finances and to have some business background. Without being able to demonstrate this, agency staff are limited in identifying a potentially successful business model and therefore may not be able to finance the enterprise.

Most participants from both sides felt that language and communication presented a serious barrier to social enterprises attaining financing. It appears that solutions to this problem lie in concessions from both sides to integrate both plain language and financial literacy to produce cohesive, productive and effective communication (Munoz, 2009).

Further to this point, this study found that financial expertise and literacy is a critical component to the success of a social enterprise's application for funding, stated by participants from both sides and within the literature (Chapman, Forbes, & Brown, 2007; Dees, 1998; Brown & Murphy, 2003). Social enterprises must continue to apply their strength and skills in grant writing, while simultaneously developing professional financial knowledge in preparation of application to and communication with economic development agencies (Munoz, 2009). Results suggest that the involvement of a qualified financial professional, either as a staff person or volunteer board member, is key to meeting requirements. Because of a frequent inability to communicate with financial

organizations despite preparedness to articulate financial needs and goals, social enterprises are often more successful when a financial expert acts as a broker, translator or mediator between parties (Nicholls & Pharoah, 2008). This individual's loyalties lie with the social enterprise; however, they can communicate in a common language with the financial organizations, adding a sense of knowledge, preparedness and, most importantly, credibility to the business. As such, securing this expertise in staff or board appears to be an essential investment for social enterprises, often placing them at an advantage on the spectrum identified by financial organizations in comparison to those with limited financial skills (Dees, 1998; Fletcher, 1995; Handford, 2005).

Economic development agencies consistently emphasized this point, identifying the importance of financial literacy and expertise when discussing financing options. Even without the availability of personal guarantees, organizations with a solid financial background have the appearance of added credibility, serious intentions, and of course the ability to overcome barriers of an inability to communicate in financial language. With this in mind, the current research finds that the incorporation of financial expertise in any capacity is essential to the success of a social enterprise's application for financing, and likely in their success as an organization.

Although the importance of involving people with financial backgrounds was recognized by both financial and social enterprise participants, the point remains that half of social enterprises interviewed had problems attaining financing, despite the involvement of a financial expert. This point may be unrelated to communication but rather a result of other issues such as restrictions, regulations and perceived financial risks involved with lending to social enterprises. For these reasons, it may be helpful for

social enterprises to look beyond mainstream financial institutions (e.g., banks) and toward becoming educated about the economic development agencies such as CBDCs, ACOA, and INTRD, of which they may not currently be aware (OECD, 2006). Several employees we spoke with of such economic development agencies recognized the low numbers of social enterprise applications, and were sincerely interested in developing more of a partnership with social enterprises. From this perspective, social enterprises may benefit from the involvement of a financial expert and from basic financial literacy training for volunteers, and a more thorough investigation of alternative lending options existing in the province. Economic development agencies would also benefit from a top-down approach to policy and upper-level changes toward acceptance of diverse business models, to give individual representatives the ability to express attitudinal and procedural flexibility and openness to social enterprise clients.

This research suggests that distance from economic development agencies or from their local representatives may play an important role in negotiating the communication barrier between social enterprises and these organizations. Participants who were located a significant distance from economic development agencies often felt that these agencies did not understand the enterprise. Without a more intimate understanding of the social enterprise's role in the rural community and its essential nature, economic development agency staff living in distant towns and cities were perceived as unable to understand the added community and economic value provided by the enterprise (Hines, 2005). Those social enterprises that were located near to the economic development agencies tended to have more success in achieving financing; however, this was often dependent as well on a close working relationship rather than simply geographic distance. Agency participants

also reflected this sentiment, noting how their personal integration in the community helped them to understand the importance of financing for a particular social enterprise client, and in some cases they actually strived to help them successfully secure financing. It is more beneficial for social enterprises to have a financial or accounting representative in the community with whom they feel comfortable asking questions and openly discussing important business issues (Hines, 2005). Although this may not always be feasible, given the isolated and rural geography of the province, it is important for economic development agencies that wish to increase their business transactions with social enterprises to understand the importance of having representatives working in the communities or regions at large, rather than centralized in the urban centres around the province.

Finally, because of the perceived inflexibility of banks by social enterprises in terms of their requirements for financing and its problematic implications, it is important for interested economic development agencies to make their services more widely known and available within the social enterprise community. An increase in effective advertising and localization of staff in smaller communities may produce an increase in communication, and ultimately a potential increase in funding and therefore beneficial community programming.

### **Recommendations**

A review of the literature together with interviews of individuals from both economic development agencies and social enterprises across the province makes it clear that specific changes from both parties may positively impact access to financing by social enterprises. The following recommendations stem from these interviews and are

supported by those in the literature. In the majority of cases, recommendations were identified from both sides, including items that each would benefit from. Although several interviewees from both sides saw few problems with language and communication between groups, most agreed that the following items were important in the foundation of their positive relationships.

### **Recommendations for Economic Development Agencies**

1. **Focus on language in discussion and in text.** The current research suggests that it is essential for economic development agencies who wish to increase the number of social enterprises among their customer base to be highly cognizant and critical of their current use of language and business or financial jargon, and to keep in mind the social orientation of the client. Although they may not come from a business background, their current or ongoing business ideas may be worth the consideration, despite the alternative business structure. This includes a review of all application documents with an eye for words and phrases that may hold only a vague meaning to those without a business background, and replacing them with plain language terms or supplemented with in-text and/or verbal explanation when terminology is necessary.

a. **Policy.** Using a top-down approach, the focus on language must occur not only at the interactional level, but also during policy and organizational development. Without a high-level acceptance of alternative business models and their unique added value, this attitude will not filter down to front line employees, potentially reducing the chances of applicants from a more socially-oriented background seeking financing (Munoz, 2009).

b. **Literature: Glossary/information/pamphlets.** The current research suggests that it is important for economic development agencies to facilitate a basic level of comprehension among clients in order to achieve an equitable understanding of terminology and requirements. For example, economic development agency staff should take the time to discuss the terminology in information packages to ensure clarity.

2. **Communication among all stakeholders.** Data from the current research consistently suggests that communication among economic development agencies and social enterprises should be increased in order to facilitate clear understanding among all parties (Munoz, 2009). By bringing both sides together, it would be substantially easier to identify and improve upon common issues, and to give social enterprises a voice. In this way, it is important to increase public knowledge and awareness of the nature of social enterprise to facilitate an appetite for goods and services provided by these businesses.

a. **Recognition of the nature of social enterprise.** In line with the recommendations of previous studies, current findings suggest that a greater knowledge of the social enterprise sector and empathy with its aims is needed (Hines, 2005). This would help economic development agencies incorporate the added value provided by social enterprises into application evaluation, and more positive and productive communication between parties is likely to result. This includes targeting policy makers, as discussed, to understanding the unique requirements and benefits of social enterprises relative to that of comparable private businesses (Hynes, 2009). Without a complete understanding of social enterprises, as communicated at length in this study, social enterprises will continue to be challenged in their approaches to accessing finance.

3. **Provide education.** An increase in business education and awareness provided to the community by economic development agencies may lead to an increase in financial preparedness among social enterprises (Chapman, Forbes, & Brown, 2007). This could fall in the forms of information campaigns, workshops, or roundtable discussions – education created to facilitate better understanding of the specific process of applications for financing. Pre-application education for social enterprises would likely facilitate an increased awareness with respect to how to run a business, what to be aware of, how to meet requirements and what to prepare for. Although initiative in these types of educational programs could be taken by economic development agencies to promote very specific guidelines and requirements, other community organizations could also organize such events in partnership with these agencies or even independently.

a. **Promotion of Economic Development Agency programs.** As outlined in the literature (OECD, 2006), it is important to increase social enterprise leaders' awareness of the wide range of options available, aside from the mainstream banks. Current results suggest that locally, social enterprises across the province, in particular the smaller or newer ones, may not be aware of the CBDCs, ACOA, and INTRD, for example, as a realistic source of financing. For this reason, we recommend increased promotion of these alternatives, their requirements, and the latitude that they may offer when considering financing applications.

### **Recommendations for Social Enterprises**

1. **Involve a financial expert.** It is strongly recommended that social enterprises work toward bringing a financial expert on board, whether it is a staff or board member. Such an individual could make significant strides in bridging the communication and

language gap between social enterprises and economic development agencies, while simultaneously increasing the credibility of the organizations. Because the focus of an agency's decision as to whether or not to finance a particular program lies primarily in the business plan or business case, an expert in the field would be an asset at all stages of preparation and presentation.

2. **Become educated.** Although the current research suggests that expert advice is needed when developing and applying for financing, it is equally important for key players to have some general financial knowledge in terms of language and jargon, and to be able, to some degree, to speak this language. Ultimately, it is important for applicants to have a business orientation in addition to their strong social point of reference. In combination with the appropriate financial expert, having some level of business and financial knowledge will demonstrate a commitment to the long-term success of the business.

### **Comments on Recommendations**

For things to change, it is important for key players from the financing negotiation to consider these recommendations and study findings. Although existing social enterprises may currently take great pains, for example, to involve a financial expert and to become financially literate, they may still not succeed in securing financing based on a failure by economic development agencies in communication or in addressing some of the areas discussed in current recommendations. Conversely, without a reasonably financially literate client, economic development agency staff that worked hard to use plain language and to recognize the nature of social enterprise may still not be able to provide financing. Given current findings, a focus on *language*, *education*, and

*communication* between *all stakeholders* will go a long way toward creating the conditions where social enterprises can secure financing in Newfoundland and Labrador.

### **Conclusion**

Integrated with existing literature, the current research suggests that it is important to emphasize *financial literacy, education* and *professional involvement* from the perspective of beginning and advancing social enterprises. For economic development agencies approached for funding, it appears that a more *sensitive and open approach* to a variety of business models facilitated by *top-down direction* from higher levels of the organization would be beneficial. At the most peripheral level, *improved language and communication* between both groups, particularly with support from higher levels of economic development agencies would enhance social enterprises' ability to securing financing for their organization.

The current study is limited in its generalizability by two things; namely, a small sample size of both economic development agencies and social enterprises, and a lack of banking representatives in the financial interviewees. Because language and communication differentials between these groups is a particularly new contribution to the literature from a focused perspective, the aim of the current study was not to achieve wide generalizability to the population of social enterprises and financial institutions in this province or country. Instead, we sought to identify pertinent issues from interested parties on both sides that may be worthy of consideration, and to make recommendations based on thematic patterns within these concerns. It would have been desirable to speak with bankers involved in lending transactions with social enterprises, especially given the inclusion of bankers in social enterprise participants' dialogue.

Future research should seek to understand language and communication differentials between these groups at a broader and more inclusive level, by replicating or expanding upon these qualitative methods with a larger sample size. The literature would also benefit from hypothesis testing of these concepts using quantitative survey methods and sampling from a wider variety of social enterprises and different forms of financial institutions in the province, including banks. As a whole, this current exploratory piece of research points to a variety of areas that appear in some cases to cause real problems for social enterprises seeking much-needed financing, and also for those economic development agencies approached for assistance. Consideration of this report's recommendations may assist social enterprises in better achieving their important goals of improved community and social well-being throughout the province.

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## Appendix A

### Interview Guide: Economic Development Agencies

#### **Background:**

This project is being conducted by the Community Services Council to explore issues of language and communication between nonprofit social enterprises and the financial institutions and economic development agencies they approach for financing. We wish to find out if conversations between both parties experience breakdowns based on divergent methods of communication, and the implications those difficulties have on attaining financing. Ultimately, our goal is to make recommendations based on research findings to enhance future communications between social enterprises and financing institutions.

#### **Definitions:**

**Social enterprise:** Any nonprofit-run initiative that sells products and services to achieve or contribute to community goals.

**Financial institutions and economic development agencies:** Organizations that provide financial services to businesses (including nonprofit-run businesses), specifically banks, credit unions, ACOA, INTRD and CBDCs. This does not include government granting agencies that are not business-related.

#### **Ethical Considerations:**

Although the interviewer will be taking notes during the interview, this is done purely to facilitate comparison between similar interviews and to elucidate dominant themes relevant to all discussions. These notes will not record any confidential details you might discuss during the conversation; in fact, the final document will not reveal any names or other identifying information discussed during the group. Results will be strictly presented in a general manner, and will not identify any organization or individual in any way. The content of all conversations will be kept completely confidential between the graduate student and lead researcher, and will remain anonymous in all documents and publications.

1. Please explain your organization's **history with assisting social enterprises** in securing financing.
  - a. Does your organization distinguish between social enterprises and other businesses when considering their applications for financing? (e.g., through special programs or concessions during the application process)
2. From your perspective, how do you **define** a social enterprise?
3. Do you feel that any **barriers or challenges** exist between your organization and the social enterprises who are trying to secure financing?
4. Do you feel that the **language** used by your organization differs from the language of social enterprises?  
(*Clarification: Jargon, communication differences, financial literacy, etc.*)

*If yes:*

- a. How does your language **differ** from that of social enterprises?
  - b. Do you feel that social enterprises have sufficient financial literacy to effectively **communicate their financial goals and needs** to your organization?
  - c. Do any language differences arise during the **application process** for financing? If so, how?
  - d. Do these differences affect your **ability to meet the needs** of social enterprise applicants? If so, how?
5. How could communication/language barriers between financing sources and social enterprises be **reduced**?
    - a. Would this lead to more **success** for social enterprises in attaining financing through your organization?
  6. Do you feel that any problems between parties are a result of a real **misalignment of priorities and abilities**, or because of an **inability to clearly communicate** these ideas to one another?
  7. Is there anything that we have not talked about that you feel is important? Do you have any suggestions for improved communication between social enterprises and providers of financing?

## Appendix B

### Interview Guide: Social Enterprises

#### **Background:**

This project is being conducted by the Community Services Council to explore issues of language and communication between nonprofit social enterprises and the financial institutions and economic development agencies they approach for financing. We wish to find out if conversations between both parties experience breakdowns based on divergent methods of communication, and the implications those difficulties have on attaining financing. Ultimately, our goal is to make recommendations based on research findings to enhance future communications between social enterprises and financing institutions.

#### **Definitions:**

**Social enterprise:** Any nonprofit-run initiative that sells products and services to achieve or contribute to community goals.

**Financial institutions and economic development agencies:** Organizations that provide financial services to businesses (including nonprofit-run businesses), specifically banks, credit unions, ACOA, INTRD and CBDCs. This does not include government granting agencies that are not business-related.

#### **Ethical Considerations:**

Although the interviewer will be taking notes during the interview, this is done purely to facilitate comparison between similar interviews and to elucidate dominant themes relevant to all discussions. These notes will not record any confidential details you might discuss during the conversation; in fact, the final document will not reveal any names or other identifying information discussed during the group. Results will be strictly presented in a general manner, and will not identify any organization or individual in any way. The content of all conversations will be kept completely confidential between the graduate student and lead researcher, and will remain anonymous in all documents and publications.

1. Please provide a brief **background** of your organization and its social enterprises.
2. Personal:
  - a. What are your **connections** and current position within the organization?
  - b. Are you the **point of contact** between your organization and the sources of funding?
  - c. What is your **financial background**?
3. Please explain your organization's **history with securing funding**.
4. Do you feel that the funding sources that you have dealt with **understand** what a social enterprise is?
5. Do you feel that any **barriers or challenges** exist between social enterprises and funding sources?
6. Do you feel that the **language** used by your organization differs from the language of your potential or current funding sources?  
*(Clarification: Jargon, communication differences, financial literacy, etc.)*
  - a. *If yes:*
  - b. How does your language **differ** from that of funding sources?
  - c. Do you feel adequately **prepared** to effectively communicate your financial goals and needs to funding sources?
  - d. Do any language differences arise during the **application process** for funding? If so, how?
  - e. Do these differences affect your organization's **success** with securing available funding? If so, how?
7. How could communication/language barriers between social enterprises and funding sources be **reduced**?
  - a. Would this lead to more **success** for social enterprises in attaining funding?
8. Do you feel that any problems between parties are a result of a real **misalignment of priorities and abilities**, or because of an **inability to clearly communicate** these ideas to one another?

9. Is there anything that we have not talked about that you feel is important? Do you have any suggestions for improved communication between social enterprises and providers of funding?
10. Could you provide us with the specific organization you most recently dealt with to secure funding?
  - a. What organization did you approach?
  - b. Who did you speak with?