Resource Dependence and the Survival of Government-Created Social Enterprises

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Abstract

Local governments increasingly use social enterprises for public service delivery, but the sustainability of this approach is likely to be influenced by a range of resource dependencies. Drawing on the Resource Dependence Theory, we investigate the resources social enterprises must acquire and maintain for their survival among nearly 100 social enterprises created by English local governments to provide leisure services. Using survival analysis, we find that government-owned and more profitable social enterprises are less likely to be dissolved, as are those with a larger board of directors. We also find that board diversity is beneficial for enterprises with larger boards.

Keywords: Social enterprises; organizational survival; corporatization; local government; quantitative analysis; resource dependence theory; resource dependencies.

Forthcoming in: *Public Management Review*

Introduction

The use of social enterprises, organizations 'with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community' (Simmons 2008, 279) has become an increasingly popular approach to providing neighbourhood and community-level services (Choi and Park 2021; Lyon and Owen 2019). Social enterprises are potentially attractive alternatives to traditional in-house or privately-outsourced public service provision because they are thought to combine the ability to meet niche social needs typical of nonprofit organizations with the commercial approach to revenue generation typical of for-profit firms (Powell, Gillett, and Doherty 2019). Importantly, such enterprises can be set up and/or supported by local governments in ways that can enable those governments to retain a degree of control over service delivery (Choi and Park 2021). The close relationship between government-created social enterprises and their parent organizations thus gives rise to an array of distinctive resource dependencies, which may influence the long-term sustainability of this model of public service delivery. In this study, we investigate the extent to which several key resource dependencies might be responsible for the survival or dissolution of leisure trusts in England – a type of government-created social enterprise commonly used to provide local sport and recreation services (Audit Commission 2006; Hodgkinson 2020; Lyon and Owen 2019; Simmons 2008).

While there is a growing public administration literature examining the role that social enterprise can play in public service delivery (see Powell and Berry, 2021), to date, little sustained attention has been paid to the management and performance of government-created social enterprises. Researchers have analysed the antecedents of local government support for social enterprises (Choi and Park 2021), the impact of political control on the value created by such organizations (Choi, Lee, and Hur 2021) and the tensions between those enterprises and public service providers (Sinclair et al. 2018). While these studies cast valuable light on the relationship between local governments and social enterprises, scholars have yet to undertake systematic investigation of the sustainability of government-created social enterprises, even though concerns about the viability of this business model were flagged by Simmons (2008) two decades ago. We seek to address this very issue by theorizing and empirically testing the relationship between resource dependencies and the dissolution of English leisure trusts to answer our core research question: what determines the survival of government-created social enterprises?

Survival of a social enterprise as a going concern is a critical indicator of the success of this model of service delivery, whereas the dissolution of a social enterprise can be regarded as an indicator of its failure (Hager, Galaskiewicz, and Larson 2004). Since social enterprises are often created to correct past or existing market failures (Beaton and Kennedy 2021), survival and performance become more inextricably linked under this model than other management arrangements. However, social enterprises 'depend on their environments for scarce resources […] which are essential to their survival' (Choi and Park 2021, 669), thus, Resource Dependence Theory (hereafter RDT) is an apt theoretical lens to examine the long-term viability of social enterprises (Carroll and Stater 2009). Resource dependencies may, for instance, point to fundamental reasons for the dissolution of a government-created social enterprise. A high degree of public ownership, for example, could enhance the legitimacy of a social enterprise thereby increasing the likelihood of survival, whilst an over-reliance on grant funding may restrict the sustainability and growth of social enterprises (Powell and Berry 2021). At the same time, enterprises with a large board of directors may be able to draw upon a wider range of sources of external support and legitimacy for their work (Singh, Tucker, and House 1986) – something that may be especially salient if those directors come from a diverse range of occupational backgrounds. To evaluate such arguments, this study examines how resource dependence may explain dissolution among 93 social enterprises responsible for the delivery of leisure services in England, during the period 2004-19.

In doing so, the study makes three contributions to public management theory and practice. First, Choi, Lee, and Hur (2021) stress the need for empirical investigations of social enterprises' public value creation, which we address by revealing the role of resource dependencies in their dissolution, demonstrating why and when social enterprises might be associated with public value destruction. Second, through an examination of the resources social enterprises must acquire and maintain for survival, the study responds to the need for new insights on policy features for the promotion of social enterprises (Choi and Park 2021). Finally, by examining the dissolution of social enterprises, the study challenges the common-held assumption that social enterprises are a financially sustainable vehicle for service delivery *de facto*, as highlighted by Powell, Gillett, and Doherty (2019). Overall, the study seeks to advance the emergence of a more general theory of (public) social enterprise management.

Theory and hypotheses

Social enterprises and RDT

RDT is often adopted in public management studies to investigate (semi) autonomous public service organizations and their organizational resource interdependencies (e.g. Barrutia and Echebarria 2021; Elgin 2015; Papenfuß and Schmidt 2021). Public management studies that draw on the RDT typically cite Pfeffer and Salancik's (2003) resource dependence model. The model enables organizations to be understood in terms of their interdependence with their environments for scarce resources such as money, human resources, information, goods, power, and social or political legitimacy that are key to survival (Choi and Park 2021). In accordance with this model, social enterprises are not viewed as self-directed and wholly autonomous but, rather, are dependent on other 'actors' for required resources (Carroll and Slater 2009).

Within resource dependence thinking, interdependence has two facets: firstly, outcome interdependence refers to when the outcomes of an organization are determined by that of another organization; secondly, behavior interdependence refers to organizational actions being dependent on another organization (Elgin 2015). Such dependencies are related to the significance of the resource in question to the organization, the level of discretion that those who control a resource have over its allocation and use, and how far those that control a resource have a monopoly over it (Gomes et al. 2010). For government-created social enterprises, and leisure trusts specifically, there is limited *inter*dependence between service actors because of the highly concentrated external dependence they experience. This *asymmetrical* dependence is a characteristic of many nonprofit organizations (Fernandez 2008). To provide an illustration of the asymmetrical dependence experienced by those providing public leisure services in England, it was reported by the Audit Commission (2006) that no management model can give councils the large capital investment required to replace and maintain ageing facilities. All councils had facilities in need of capital investment, and there has been historic low funding of leisure facilities with the service subject to funding cuts over many years (e.g. attributed to the London 2012 Olympic and Paralympic Games, austerity measures, etc.). Additionally for leisure trusts, they rarely have the required turnover to enable them to secure additional external funding often relying on annually negotiated revenue grants from the state. These characteristics of the service and of the social enterprises in question demonstrate the concentrated levels of external dependence and the discontinuities in the inflow of resources that significantly reduce any bargaining position, collectively epitomizing the condition of asymmetrical dependence as identified by Fernandez (2008). By this very nature, leisure trusts can experience resource challenges associated with asymmetrical dependence to a greater degree than most nonprofit organizations that may have more options to reduce external dependence on resource providers (e.g. Moulton and Eckerd 2012).

As Gomes et al. (2010) emphasize, it is critical to know just how important distinct resources are especially for social enterprises where viability to continue as a going concern may be at risk. While resource-based theories such as the Resource-Based View and Resource Advantage Theory are key lenses to explain competitive advantage generated by the organization's resource base (i.e. the degree to which resources are valuable, rare, inimitable, and non-substitutable), they do not speak directly to the survival of public service organizations; herein lies the key role of the RDT to address the research question.

Rather than seek to determine the resource ingredients of superior performance or 'competitiveness' of social enterprises, the study seeks to reveal a set of resources that leisure trusts are critically dependent on for their survival. Most extant resource dependence investigations have focused on the private sector, with a growing application to public sector organizations; consequently, the literature has rarely considered the particularities of the third sector, where resource dependence can be highly asymmetrical (e.g. Fernandez 2008). The need to 'seek to acquire control over resources held by other actors […] in order to minimize their dependence on those entities' (Elbanna, Andrews, and Pollanen 2016, 1022) is, therefore, felt acutely by social enterprises. If social enterprises are to secure their survival it is essential that they know exactly the resources to acquire and maintain for survival.

Resource dependencies

To reveal resource dependencies that may be critical to explaining dissolution, it is necessary to establish what is meant by 'resources'. Resource-based theories hold shared commonalities in terms of what are considered key resources for organizational health, for example, financial resources, human capital, physical resources and scale, along with relational and informational resources (Hughes and Morgan 2007, see Table 1). From a resource dependence perspective, limited access to or an inability to access such resources—referred to broadly as resource insufficiency—will diminish the organizational health of nonprofits (Fernandez 2008).

For example, critical resource dependencies revealed in recent applications of the RDT to public management have included financial, human and (technical) knowledge resources, and network learning to explain effective inter-organizational working (Barrutia and Echebarria 2021); the role of fiscal resource for the promotion of social enterprises (Choi and Park 2021); organizational size, organizational formalization, legitimacy, social capital, and leadership as resources linked to government support of community-based initiatives (Igalla, Edelenbos, and van Meerkerk 2021); while, human capital conditions related to executives' political experience, pay and internal promotion have been observed to be critical to executive turnover in corporatized public organizations (Papenfuß and Schmidt 2021).

In this study, we build on the insights of Fernandez (2008) who revealed how insufficiency of financial resources and human capital resources specifically were important drivers of the dissolution of nonprofit organizations. Regarding the former, facets of financial resources on the dissolution of nonprofit organizations remain understudied (Park, Shon, and Lu 2022). To this end, we account for the profitability of social enterprises, the financial dependency of these enterprises on the state via public funding and draw on the broader organizational publicness construct (ownership and control as well as funding) to examine the degree of institutional and political support for social enterprises (Moulton and Eckerd 2012). Concerning the scarcity of human resources, though observed to be critical to dissolution (Fernandez 2008) and identified as a critical resource under RDT (e.g. Moulton and Eckerd 2012), such resources remain neglected in recent studies of dissolution (e.g. Andrews 2022). To examine the role of human capital, the size of the management board and board diversity are both considered. Finally, given that legal conflicts among members is a previously observed reason for dissolution of nonprofit organizations (Fernandez 2008), the mutual legal form that some social enterprises may take is accounted for on the premise that such a legal form should mitigate this driver of dissolution. In sum, recognizing that the social enterprise model is not infallible, uncovering why and when the social enterprise model fails and causes public value destruction needs to be determined by an examination of the resources social enterprises must acquire and maintain for survival.

Resource dependencies and dissolution

Profitability

RDT makes a case for nonprofit organizations to pursue self-generated revenues in addition to local government subsidies to survive (Verbruggen et al. 2015). Specifically, because it 'minimizes the risk associated with dependence on any single source' (Lu, Shon, and Zhang 2020, 33), commercial revenue is deemed a critical financial resource (Lu, Guan, and Dong 2022). While many nonprofit organizations will seek to generate profit through service provision to support the respective social missions (Park, Lu, and Shon 2021), this is magnified in the public leisure context, where users pay to access the service, and leisure trusts can generate commercial revenue through a service charge, albeit often at subsidised prices (Hodgkinson 2020). The ability to generate profit is therefore expected to have a critical role to play in the survival of social enterprises. Historically, there have been examples of poor performing leisure trusts being dissolved for poor financial performance, often at great cost to local government due to the requirement to then insource the service or tender a new contract for the service to be outsourced (Audit Commission 2006).

From a resource dependence perspective, increased profitability is likely associated with greater financial slack, which can in turn help to mitigate some of the external dependence on local government funding and allow more autonomy and flexibility to the organization (Park, Lu, and Shon 2021). Recent findings suggest that profitability does reduce the likelihood of social enterprise dissolution (Park, Shon, and Lu 2022). It may be for this reason why financial performance forms a key part of the perceptions of success and failure in the public leisure sector (Audit Commission 2006). While the logic appears relatively straightforward here, we do acknowledge the counter argument found in the literature on nonprofit organizations that reliance on commercial income alone could reduce survival prospects (e.g. Lu et al. 2020). Moreover, a dependence on commercial income has been found to be associated with mission drift in nonprofit organizations (Park et al. 2021), which could result in a failure to fulfil the requirements attached to charitable status prompting dissolution. Nevertheless, on the basis of most prior theory and evidence, we propose:

H1: Profitability will have a negative relationship with social enterprise dissolution

Publicness

Organizational publicness is a continuum, where organizations can be more or less public, based on the degree of *ownership* by public institutions, the degree of *funding* provided by government grants and contracts, and the degree of *control* exercised by political bodies over organizational priorities (Andrews 2022). Developed by Bozeman (1987), this multi-dimensional conceptualization of publicness has rarely featured in studies of social enterprises (Choi et al. 2021). Yet, from a resource dependence perspective, the level of publicness of social enterprises is seen as a 'reliable and constant source of income and political legitimation' (Fernandez 2008, 131) and, thus, would be expected to play an important role in explaining dissolution.

First, for *ownership publicness,* a greater degree of ownership by local government signals a 'credible commitment' to the social enterprise, reducing the likelihood of dissolution (e.g. Andrews 2022). This legitimation will likely benefit performance, indeed, there are numerous observed advantages associated with greater ownership involvement of local government in the delivery of leisure services. Greater ownership publicness may result in higher levels of investment in the form of supportive local politicians raising the profile of the organization at a corporate level, cross-department working resulting in efficiencies and savings and joined-up services for customers, the ability to initiate changes more easily, and the use of prudential borrowing (Audit Commission 2006). A further positive by-product of the wholly-owned social enterprise (i.e. no mixed or partial local government ownership) is the mitigation of financial risks that are often associated with local authority companies (Andrews 2022), which if left unchallenged could otherwise contribute to organizational dissolution. However, empirical evidence of the link between organizational legitimacy and performance remains sparse in the resource dependence literature (Drees and Heugens 2013).

Second, in relation to *funding publicness*, Carroll and Stater (2009) observe how those nonprofit organizations that are reliant on a single stream of revenue will likely experience greater dependence on their primary funding source. The implication of this is two-fold for social enterprises: first, if the primary funding source is open to fluctuation, such as say donor contributions, there is a high-risk dependency that could result in significant loss of a key resource, which may be potentially damaging to organizational survival; second, and in contrast, if the primary funding source is government, such 'funding can help to stabilize a nonprofit's revenue base' (Lecy and Van Slyke 2014, 209), and therefore, reduce funding volatility associated with failure. Ergo, the dependency on local government for their funding, and the associated lower financial-risks involved, is expected to reduce the likelihood of social enterprise dissolution. This proposition is supported by the findings of Lecy and Van Slyke (2012) who report a positive relationship between government funding and nonprofit density.

Third, *control publicness* reflects the degree of political control over social enterprises and is theorised to positively influence their value creation efforts (Choi et al. 2021). The ability of local governments to actively shape the activities of social enterprises and assert a degree of political control is facilitated through the presence of local elected members on the management board (or board of trustees); though in this role, they are legally required to act in the best interests of the trust and not local government (Audit Commission 2006). Nevertheless, Lecy and Van Slyke (2014) observe, for instance, how board member interests can influence resource allocations that align to their values and perceptions of need. Moreover, as political control increases through the direct representation of the local authority on the board, social enterprises may take advantage of stronger links to the community (Audit Commission 2006), which in turn, should assist their social mission and overall viability. Taken collectively, then,

H2: Organizational publicness will have a negative relationship with social enterprise dissolution

Management board size

Boards of directors play a critical role in supervising managers' efforts to maximise the performance of an organization (Hart, 1995). A 'strong' board can aid in the effective management of external dependence (Pfeffer and Salancik 2003) with the 'board' variable featuring heavily in extant resource dependence studies (Ozturk 2021). As Papenfuß and Schmidt (2021) discuss, RDT is a common approach to determining the value and role of the board because directors 'provide a channel between the organization and its most influential stakeholders' (p. 5). Due to this unique position, the board plays a critical role in the success of a social enterprise, as illustrated by Alonso and Andrews (2021) and Bryson, Crosby, and Seo (2022), respectively. Individual board members contribute key resources such as experience and network contacts that can mitigate the effects of resource uncertainties and external dependencies (Papenfuß and Schmidt 2021). As board size grows, then, it is expected that the relevant skills, knowledge and experience of the board also increases, which is a feature of successful social enterprises (Powell et al. 2019). Conversely, a potential risk to the survival of social enterprises, as witnessed in leisure provision, is the inability to retain quality trustees/directors (Audit Commission 2006). As board size decreases, human capital (e.g. skills, knowledge, expertise, experience, networks, legitimacy, etc.) will also diminish, which will, in turn, likely negatively impact the probability of organizational survival. Hence, social enterprises with larger boards are likely to be better placed to manage their asymmetrical resource dependence in a way that is conducive to survival. Consequently,

H3: Board size will have a negative relationship with social enterprise dissolution

Management board diversity

Social enterprises with a more diverse body of directors on the board, in terms of occupational and functional background, may be better able to address the varied managerial, legal, financial and operational dependencies that they are required to manage on a regular basis. For instance, as Verbruggen et al. (2015) highlight, from a resource dependence perspective, nonprofit organizations must be able to comply with the varied requirements of those external resource providers that they depend on by providing material resources, technical or specialist information, and social support. An inability to do so or the lack of the necessary competencies and skills to do so sufficiently could, thus, result in noncompliance damaging the relationship with the external resource provider. Moreover, there is the expectation that with diverse occupational and functional backgrounds represented, there will be a stronger inclusion of a range of stakeholder interests on the board, which should lead to positive outcomes for social enterprises responsible for leisure services (Simmons 2008). From a resource dependence perspective, the wider ties to stakeholders that can be generated by a diverse board helps to connect the social enterprise to a wider set of actors with resources that may aid the realization of performance goals (Igalla et al. 2021). It is expected, therefore, that the more diverse the board, the wider the network ties of the board become increasing the accessibility to resources needed for survival. Thus,

H4: Board diversity will have a negative relationship with social enterprise dissolution

The benefits of having a diverse board of directors may become especially apparent for social enterprises with large boards. Coupled with a larger network of external contacts, a wider spread of individual skills and more collective experience, a large board of directors that is also high in occupational and functional diversity has much greater capacity to effectively address key resource dependencies and stakeholder demands. At the same time, the potential for social enterprises to suffer major human capital losses from the turnover of directors would seem likely to be much less in those that have large diverse boards of directors than those that have small, but diverse boards, where the departure of an individual with a discrete occupational background may have an especially large impact (Stewart 2017). All of the above implies that board diversity could have particularly strong effects on the likelihood of dissolution in social enterprises with large boards of directors for two main reasons. Firstly, because having multiple directors from key occupational and functional backgrounds means that a social enterprise with a large board has more individuals with the knowledge and skills needed to manage the resource dependencies present within different 'monitoring domains', making governance failures less likely (Hambrick, Misangyi, and Park 2015). For example, having multiple directors with a business background may enable boards to better understand, monitor and debate an enterprise's financial management and reporting. And, secondly, because the survival of social enterprises with large, diverse boards of directors will be less dependent on the skills, expertise and commitment of a small number of key individuals (Mordaunt and Cornforth 2004). Hence, given the potential interactive effects of board diversity and board size on the capacity to effectively manage resource dependencies, we propose:

H5: Board diversity will strengthen the negative relationship between board size and social enterprise dissolution

Mutual legal form

The legal form that government-created social enterprises take can have important implications for how they are managed and how their principal goals are understood. In particular, during the 2010s, the UK government encouraged local governments to "spin-out" community-level services, such as leisure, libraries and social care, to employee-led organizations known as mutuals (Hazenberg and Hall 2016). Mutuals are a distinctive form of social enterprise that are 'owned by, and run for, the benefit of its members, who are actively and directly involved in the business – whether its employees, suppliers, or the community or consumers' (Department for Business, Innovation and Skills 2011, 2). Public service mutuals are therefore regarded as organizations that have 'left the public sector… in which employee control plays a significant role in their operation' (Cabinet Office 2011). In addition to having significant employee control, public service mutuals foster close connections to community stakeholders, which should 'provide an arena in which stakeholder perspectives can come together for dialogue and negotiation' (Simmons 2008, 288). Such a shared purpose should reduce the potential of conflict among members, a known cause of dissolution (Fernandez 2008).

With stronger representation of local stakeholder interests at the board level, leisure trusts under the mutual governance model are expected to emphasize community engagement to a greater degree and, thus, provide a service tailored to the needs of the local community. Having a specific focus on key stakeholders enables these social enterprises to 'gather relevant information about what the issues and requirements for success are, and what has worked or might work to achieve purposes within the context' (Bryson et al. 2022, 128). This knowledge foundation is not only critical to successful strategizing, but will also serve to elicit more commitment to the organization's mission from key stakeholders, which is positively associated with the performance of social enterprises (Choi et al. 2020). Thus,

H6: Mutual legal form will have a negative relationship with social enterprise dissolution

Data and methods

The study sample includes all the social enterprises providing leisure services that were created by local governments in England during the period 2004-19. Responsibility for public leisure services in the English local government system is assigned to the single-tier London boroughs, metropolitan districts and unitary authorities that operate in urban areas, and the district councils operating in the two-tier local government system present in rural areas. Single-tier authorities are responsible for a wide range of local public services in the areas of: education (e.g. primary and secondary schooling), social care (e.g. services for older people and at-risk children), environmental services (e.g. waste management), highways and transportation, economic development and land use planning, cultural services (e.g. libraries, museums), and social housing (e.g. sheltered accommodation and rent subsidies) – the latter two services also being the responsibility of district councils.

During the study period, annual service expenditure within the English local government system (circa £100-120bn) was equivalent to about a quarter of the identifiable annual public sector expenditure on services in England as a whole (circa £400-500bn) (HM Treasury 2018). Throughout the period, approximately 1% of local government service expenditure (around £1 billion) was spent annually on providing public leisure facilities (see https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing), such as leisure centres and swimming pools (of which leisure trusts comprised approximately a quarter of this provision), playing fields and golf courses to local communities. Leisure centres and swimming pools account for the greatest proportion of this expenditure.

This was equivalent to the money spent on library services and about half of the annual expenditure on waste management services. Importantly, local government expenditure on leisure services declined in the wake of central government budget cuts in the 2010s.

To identify the leisure trusts in which local governments had a material interest, the annual statements of account for all local governments in England were scrutinized in detail. This extensive search procedure revealed the existence of 93 separate local government-created leisure trusts at some point during the study period i.e. 2004-19. To identify the legal form of each trust, the registered company number for each enterprise was then searched via the FAME database from Bureau Van Dijk. This process revealed that the leisure trusts included in our analysis comprised: seventy-one companies limited by guarantee (of which four were wholly-owned by local governments); five charitable incorporated organizations; and, seventeen mutual societies. Of the ninety-three leisure trusts, all but nineteen of them are also registered charities. To construct a trust-level dataset for the purposes of the study, electronic versions of the annual reports for each enterprise were downloaded from either the beta services of Companies House, the Charity Commission, or the Mutuals Public Register, depending on the main legal form of the enterprise. Following that, the relevant accounting, finance and board composition information for our analysis was transposed by hand from the annual reports into an electronic database ready for analysis.

Dependent variable

We follow Peters and Hogwood (1988) in regarding organizational dissolution as ‘the abolition of an organization with no replacement organization established’ (132). For social enterprises, this occurs during the process of liquidation once an organization ceases to hold any assets. For the leisure trusts that we study, no replacement organization was created in place of dissolved trusts no longer holding any assets, though the services that they had provided were nonetheless taken over by other organizations. The dependent variable for the analysis presented here is therefore the hazard rate for an enterprise's assets being completely disposed in a given year, which can be characterised as the likelihood that this particular event will happen to a given social enterprise at a particular time. The hazard of an enterprise being dissolved is a function of the length of time in years until liquidation occurs. Enterprises that survived the study period without being dissolved are assigned a value of 1 on a status variable. Enterprises that are no longer operational received a 0 from the year in which their assets are disposed and then exited the panel.

Resource dependencies

To measure the *profitability* of leisure trusts, we calculate the Return on Capital Employed (ROCE), which refers to an organization's earnings before interest and taxes, divided by its assets minus its current liabilities. ROCE thus captures the efficiency with which a trust deploys the capital to which it has access (Vernimmen et al. 2017).

A dichotomous variable coding wholly-owned trusts 1 and all other trusts 0 is included in our statistical model to capture the effects of *ownership publicness*. Wholly-owned leisure trusts were identified from the information provided in each local government's annual statement of accounts. Since none of the trusts took the form of companies limited by shares, there were no cases of mixed or partial local government ownership. So, the dichotomous measure capturing wholly-owned trusts represents the best proxy available for public ownership.

The dependence of each leisure trust on resources from their original founding governments was used as a measure of *funding publicness*. It was gauged by calculating what proportion of a trust's annual turnover was attributable to the management fees and/or maintenance grants/subsidies provided by the founder organizations. These fees and grants are usually treated as ‘unrestricted’ funds, meaning that the trust can deploy them how they see fit, unlike ‘restricted funds’, which must be spent by enterprises in ways that are stipulated by donors. Typically, government-created leisure trusts are encouraged to diversify their revenue sources by their founding governments and to become commercially independent of the founders. For that reason, higher levels of dependence on financial support from local governments is a good proxy for the commitment of those government to the survival of a trust.

The degree of *control publicness* for each trust in the sample was measured by calculating the proportion of local elected politicians on a trust’s board of directors. In mathematical notation, political control for leisure trust *i* in year *t* is equal to $\left(\frac{n_{it}}{Bsize_{it}} x100\right)$, where *n* is the number of directors who are local politicians and *Bsize* is the board size.

Board size is measured as the number of directors that sit on each trust board per annum. To collect this information, we looked at each year of the leisure trust’s accounts, identifying meaningful variations in board composition over time. The roles and responsibilities of leisure trust boards in England mirror those of the one-tier boards of directors typically found amongst privately-owned firms in the UK, in which the chairman and managing director jointly supervise company activities with the support of executive and nonexecutive directors. Leisure trusts address the interests of multiple stakeholders, so this indicator can proxy for the extent to which key stakeholder groups are represented in major decisions (Aggrawal, Evan, and Nanda 2012). *Board diversity* is measured by constructing a Blau (1977) index of the heterogeneity of occupational backgrounds of the trust directors, calculated by summing the squared fractional proportions of each occupational category on the board of directors and subtracting the resulting total from 1, with a high score indicating high diversity. In doing so, we differentiate five broad main categories of occupation: business and finance (e.g. director, accountant, consultant); legal (e.g. company secretary, barrister, solicitor); community and public service (e.g. leisure support worker, headteacher, civil servant), technological (e.g. engineer, IT consultant, architect); and, not formally employed (e.g. retired, housewife, student).

The impact of a *mutual legal form* is captured by coding those leisure trusts taking a mutual form 1 and all other trusts zero. It is anticipated that mutuals will have a higher rate of survival than other legal forms because they are required by law to operate in the interests of their members. The emphasis on members' interests deepens the connections of mutuals with their key stakeholders, especially service users and employees who are also expected to be represented on the board of directors (Department for Business, Innovation and Skills 2011).

Control variables

To capture other potentially relevant organizational influences on the prospects of survival/dissolution, we include both age and size in the statistical model as these consistently feature in studies of the dissolution of nonprofit organizations and are, therefore, deemed to be important control variables (e.g. Fernandez 2008; Park et al. 2022). The *size* of each leisure trust is measured as the value of the total assets that they hold. This approach enables us to gauge the full range of resources available to a trust to achieve financial sustainability through their charitable activities (Asmalovskij et al. 2019). Leisure trust *age* is measured as the number of years since the financial year in which the enterprise was established, as per prior empirical studies (e.g. Coad et al. 2018).

Five variables capturing features of the main local authority area in which leisure trusts operate are included in the statistical model to control for the impact of environmental factors beyond the control of the trust directors. First, a dichotomous variable coding leisure trusts operating in areas classified by the Office for National Statistics as *urban* 1 and trusts operating in rural areas 0 is included to control for the possibility that trusts in urban areas may be more economically sustainable than those in rural areas due to lower costs and better development opportunities (Steiner and Teasdale 2019). Second, we control for the potential effects of *economic growth* on trust dissolution by using estimates of the annual percentage change in the Gross Domestic Product (GDP) (£'s) per capita for each local area published by the Office of National Statistics. Third, we control for the fiscal health of the main founding local government for each trust by including the following three measures in the models: i) *expenditure change* gauged as the annual percentage change in leisure and culture services expenditure per capita in the area served by each leisure trust; ii) *fiscal risk* calculated as the annual proportion of revenue expenditure coming from sources other than the local property (council) tax; and, iii) *fiscal slack* operationalized as unallocated reserves relative to revenue expenditure per annum. These variables are key indicators of a local government's "ability to meet financial and service obligations" (Jacob and Hendrick 2013, 11), and have been employed in previous research in the English context (see Dixon and Elston 2020). Expenditure cuts, dependence on non-local financial sources and low levels of reserve funds may prompt local governments to cut costs by reducing their commitment to supporting the trusts providing leisure services.

Descriptive statistics and correlations for the variables used in the analysis are presented in Table 1. The table highlights that during the study period English leisure trusts held, on average, nearly £8 million in assets and were about eleven and a half years old. In terms of profitability, the mean ROCE is 3.51, but the standard deviation is extremely large, suggesting that trust profitability varies considerably. Only a tiny proportion of leisure trusts are wholly-owned by local governments, and funding publicness is comparatively low, with trusts receiving on average less than 20% of their income through local government fees and grants. In addition, the mean proportion of politicians on the boards of directors is around 6%, indicating that, overall, levels of publicness for leisure trusts are quite low. The average number of directors on a leisure trust board was eleven, with under a fifth (17%) of the trusts taking a mutual form.

The negative correlations between political control and board size and dissolution point towards important dependencies in leisure trust dissolution. Nevertheless, it is necessary to develop and apply a multivariate model to firmly establish the presence of direct statistical relationships between the variables of interest.

[Table 1]

Statistical results

Figure 1 depicts Kaplan-Meier estimates of the hazard rate for leisure trusts in England. The figure highlights that during the fifteen-year study period about 20% of the trusts were dissolved.[1] Importantly, the likelihood of dissolution has increased since around 2010, which may indicate that financial pressures on local government in the wake of public sector austerity have had a damaging on-going effect on the survival of leisure trusts. Although our analysis suggests changes in local GDP and local government fiscal health are unrelated to trust dissolution (see Table 2 below), trusts in urban areas seem to have been less likely to be dissolved implying the greater viability of the social enterprise model in areas with more economic development potential.

[Figure 1]

To better understand the impact of resource dependencies on the dissolution of trusts, we turn now to our multivariate survival analysis. We present four models. The first model includes all of the variables listed above, with the second including a squared version of organizational age to explore the possibility that the age-dissolution relationship is u-shaped, following what Fichman and Levinthal (1991) describe as a "liability of adolescence" whereby organizations ignore any performance issues during an initial honeymoon period before eventually facing up to their problems. The third and fourth models follow the same pattern as the first two models, but with a variable multiplying board size and board diversity added to test for the combined effects of those two variables on the likelihood of dissolution.

Cox proportional hazard estimates for the likelihood of social enterprise dissolution are shown in Table 2 below. The global test of the proportional-hazards assumption indicates that the assumption cannot be rejected for this model (chi2 = 20.66, p = .111). Multicollinearity does not seem to be a concern for the analysis since the individual Variance Inflation Factor is well below 2 (average = 1.23) for all explanatory variables (Belsley, Kuh and Welch 1980).

[Table 2]

We observe strong support for our first hypothesis regarding the impact of profitability on dissolution. The hazard ratio for ROCE is below one and statistically significant in all of the models, indicating that more profitable leisure trusts are less likely to be dissolved than those that are less profitable. Substantive interpretation of the hazard ratio for ROCE suggests that for every increase of one in the profitability ratio of a trust, the likelihood of dissolution decreases by between 0.02 and 0.03 of a percentage point. Hence, if a trust achieves a one standard deviation increase in profitability (249.098) above the mean for all trusts (3.03), then it is around 7.5% less likely to be dissolved.

Turning to hypothesis 2, the hazard ratio for public ownership is less than one and is statistically significant, suggesting that wholly-owned leisure trusts are less likely to be dissolved than those that are not owned by local governments. Although the extremely small size of the hazard ratio for local public ownership suggests that dissolution of wholly-owned leisure trusts is utterly unlikely, it is important to bear in mind that for our study this variable is capturing the impact of only four cases of such trusts, none of which were dissolved during the study period. Contrary to our expectations, the hazard ratios for dependence on local government funding and the proportion of politicians on the board of directors are both above one in all four models, though neither ratio is statistically significant. Overall, then, our estimates offer limited support for our second hypothesis regarding the negative relationship between organizational publicness and the dissolution of government-created social enterprises.

The hazard ratios for the board size and diversity variables offer mixed support for hypotheses 3 and 4. The ratio for board size is below one and statistically significant, and substantively speaking implies that the addition of one more director is associated with about a two percent decrease in the likelihood of dissolution. Or, put differently, if there were a one standard deviation (3.45) increase in the number of directors, then a leisure trust would be about seven per cent less likely to be dissolved. However, although the hazard ratio for board diversity is below one, it is not statistically significant, possibly because we are unable on this occasion to capture the full career history and educational background of the directors in our diversity measure. Nevertheless, the hazard ratios for the interaction between board size and diversity shown in models 3 and 4 provide support for hypothesis 5. They are negative and statistically significant, indicating that the benefits of occupational diversity for the survival of social enterprises may be contingent upon the size of the board, with larger boards potentially better able to harness the range of skills, expertise and experience from a more diverse board than their smaller counterparts.

Regarding hypothesis 6, it was proposed that mutual legal form will have a negative relationship with social enterprise dissolution. The hazard ratio for the mutual society variable in models 1 and 2 is positive but not statistically significant, suggesting that dissolution is unrelated to whether or not a leisure trust takes this legal form. To explore the impact of legal form further, we substituted a variable capturing whether or not trusts were registered charities for the mutual variable,[2] finding that this measure too was unrelated to the likelihood of dissolution.

Finally, the effects of the control variables offer some important insights that warrant consideration. As expected, it appears that organizational size has a negative relationship with dissolution. The hazard ratio for the assets held by each leisure trust is less than one and is statistically significant. By contrast, the results for model 1 suggest that organizational age has no linear relationship with the dissolution of leisure trusts. Although the hazard ratio for age is below one, it is not statistically significant. However, the estimates for model 2 including the squared version of the age variable highlight that there may be a nonlinear relationship between age and the dissolution of English leisure trusts, which follows an inverted u-shaped trajectory. The hazard ratio for age is above one, while that for age squared is below one. This implies that dissolution only becomes more likely after the early years of a trust's existence but that as trusts become much older, they are less likely to be dissolved. There is some evidence from the most fully specified model that fiscal risk may influence the likelihood of dissolution, but further quantitative and qualitative research investigating the financial management of the local governments responsible for leisure services is necessary to fully understand its potential impact on leisure trusts.

Discussion

Theoretical contributions

Drawing on the RDT, the study reveals key resource dependencies that explain social enterprise dissolution over time and in doing so, several contributions are made to public management theory.

First, RDT has been adopted widely in the public management field, but there are few instances of its application in the study of social enterprises; notable exceptions include Chew

(2010), Choi and Park (2021), and Powell and Berry (2021). This is despite recognition that collaborations between government and the third sector may be difficult to manage due to the challenges posed by resource dependence (Alonso and Andrews 2021). In evaluating resource dependence arguments concerning the survival of social enterprises, the findings reveal that weaker profitability, a lower degree of ownership publicness and smaller board sizes are critical to dissolution. Taken collectively, the findings generate knowledge on the multi-level, multi-actor resource complexity of the management and performance of government-created social enterprises, which has been lacking in the extant literature (Alonso and Andrews 2021). Consequently, the study demonstrates the origins of value destruction associated with social enterprise dissolution and advances the social enterprise—public value debate, as called for by Choi et al. (2021). Moreover, the study addresses the lacuna of knowledge on what conditions are associated with the viability of the social enterprise business model (e.g. Powell et al. 2019; Simmons 2008).

Second, there are many types of social enterprises to be studied, such as development trusts, community enterprises, co-operatives, housing associations, and social firms, with leisure trusts being just one example (Lyon and Owen 2019). Similarly, different service and country settings can also vary drastically between studies of social enterprises (Choi and Park 2021). For instance, Bryson et al. (2022) examine economic development services in the US; Chew (2010) focuses on community, culture and leisure, and healthcare services across the UK; Choi et al. (2021) examine social services in South Korea; while Powell et al. (2019) investigate social care services in England. As is the case with many public management studies though, most extant research to date does not explicitly account for variations between service environments when seeking to explain organizational performance (O'Toole and Meier 2015). Different services will, by the very nature of the service they provide, operate under different resource dependencies from another service type. For example, social enterprises providing human and social services may potentially benefit more from a higher degree of publicness and a large board than enterprises providing technical services, such as waste management, as they are typically more dependent upon professional staff, complex lines of accountability and citizen co-production (Andersson and Liff 2012). By examining the role of resource dependence in leisure trust dissolution, we provide finer-grained situational insights on social enterprise management.

Finally, and linked to the first and second contributions, the study's contribution to RDT specifically rests on the centrality of performance to the study, which is at the heart of the resource dependence literature (Drees and Heugens 2013). Few extant studies have applied the RDT to examine the performance of organizations that experience significant asymmetrical dependence, favouring instead to consider organizations that display more symmetrical (inter)dependence (Ozturk 2021). Consequently, Ozturk (2021, 547) states that 'inquiries about the nature of dependence in future studies have the potential to make a meaningful contribution to resource dependence theory'. While resource dependence thinking has been transferred to the nonprofit sector, social enterprises have rarely featured as a research setting. In doing so here, we introduce the role resource dependence plays for the survival of those organizations that experience extreme asymmetrical dependence, contributing new knowledge to the emerging narrative on the resource dependence scope continuum (Abdurakhmonov, Ridge, and Hill 2021).

Implications for practice

Upon dissolution of a social enterprise, local governments are often forced to insource the service (i.e. bring it back in-house) at an additional resource cost. Yet, 'Government does not have the capacity to take large swathes of services back in house. As with wider business continuity policies, it will want to *preserve healthy businesses*' (Sasse et al. 2020, 12 *[emphasis* *added]*). Preserving healthy social enterprises requires empirical evidence of the resource dependencies that are critical to their survival and herein lies the key contribution to practice of the study.

As Lu et al. (2020) observe, knowledge on nonprofit dissolution can provide critical implications for the formulation of strategies that ensure sustainability and longevity of such organizations, however, the topic is underexplored with an inconclusive body of empirical evidence. The findings of this study reveal that those social enterprises that are (a) less profitable, (b) non-government owned, and (c) have a smaller board of directors, which (d) is also less diverse are at higher risk of dissolution. These findings are critical to the development of policy to encourage the viability of social enterprises over time, which the public management field has been calling for (Choi and Park 2021).

Since new government-created social enterprises are particularly prone to dissolution and to reduce this outcome, government policy should ensure they (i) have high degree of ownership publicness, (ii) invest in holding assets, and (iii) appoint a large board of trustees/directors, preferably from a diverse array of occupational and functional backgrounds. Moreover, the findings provide key criterion to assess the probability of existing social enterprises continuing as a going concern. In this case, where enterprises are observed to be displaying the characteristics of dissolution, managers can focus efforts on targeted interventions to counter such conditions, thereby increasing the likelihood of success and preventing future dissolution.

Limitations and future research

Although our findings enable us to contribute to theoretical and practical debates about the role of social enterprises in public service provision, our research design has some limitations. Firstly, the research is based solely on local government-created social enterprises in England.

The legal basis, ownership structure, board governance and funding models for social enterprises in other countries may be very different. Cross-country comparative research capturing variations in the ways in which social enterprises are understood and operated could reveal vital differences in the ways in which social enterprises create or destroy public value in different contexts. Secondly, our study is based on a specific form of social enterprise that provides a single type of public service: the leisure trust. Comparative studies of the viability of the alternative social enterprise models that are used for providing different types of public service could deepen understanding of circumstances in which this approach to creating and sustaining public value might work best. Subsequent research should therefore systematically investigate which models of social enterprise appear to be most viable. Finally, by identifying resource dependencies tied to social enterprise dissolution our study directly addresses the issue of the sustainability of this model of public service delivery. However, quantitative and qualitative research systematically investigating the impact of alternative approaches to co-governance and co-production in social enterprises would shed invaluable light on the extent to which the distinctive values and ethos of this increasingly important organizational form can contribute to the creation of public value.

Notes

[1] The leisure trusts examined manage public indoor sports centres and swimming pools, with the exclusion of outdoor recreational facilities, community centres, privately managed facilities, voluntary run facilities and school facilities (Audit Commission 2006).

[2] The dissolution rate for leisure trusts in England is lower than that for private companies at large, which is just over 10% annually (Office for National Statistics 2019), potentially because of the length of the contracts that trusts sign to provide leisure services to local governments. However, the leisure trust rate of dissolution is about twice that estimated for English local

government companies in general (Andrews 2022), and almost four times that for UK central government agencies, which is about 8% for the 23-year period studied by James et al. (2016).

[3] Simultaneous inclusion of the mutual society and registered charity variables in the survival models is not possible due to the extremely high level of collinearity between them.

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Table 1. Descriptive statistics and correlations

		Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Dissolution	.136	.343														
2	ROCE	3.505	249.098	.005													
3	Local government owned	.010	.101	-.040	-.246**												
4	% Local government funded	16.980	16.420	.023	.051	-.074*											
5	% Local politicians on board	6.409	8.387	-.070*	-.024	.070*	.070*										
6	Board size	11.04	3.45	-.187**	-.001	-.067*	.114**	.179**									
7	Board diversity	.632	.136	.061+	.042	-.167**	.066*	-.005	.305**								
8	Mutual society	.172	.377	.005	.023	-.046	.068*	.327**	.097**	-.116**							
9	Organization size (£000s in assets)	7963.579	39351.043	-.065+	-.002	-.017	.151**	-.076*	.008	.110**	-.057+						
10	Organizational age	11.5	8.799	-.132**	-.019	-.103**	-.284**	-.144**	-.074*	.010	.001	.212**					
11	Urban	.757	.429	-.130**	.004	.031	.126**	-.026	.033	-.048	.040	.077*	.147**				
12	GDP per capita % change	2.627	4.575	-.009	.042	-.005	-.030	.006	.006	.016	.003	-.008	.002	-.002			
13	Local leisure % expenditure change	8.340	213.451	-.012	.009	-.010	-.003	.054	.017	-.018	-.018	-.003	-.041	.025	-.001		
14	Fiscal risk	.636	.146	-.024	.000	.067*	.320**	.057	.111**	.015	-.126**	.132**	-.053	.355**	-.030	.036	
15	Fiscal slack	.138	.183	.052	-.018	-.032	-.209**	.059	-.138**	-.060	.143**	-.091**	.084*	-.235**	.002	-.022	-.565**

Notes: Observations = 889. +p<.10; *p < .05; **p < .01.

Table 2. Resource dependencies and social enterprise dissolution (2004-19)

	Model 1		Model 2		Model 3		Model 4	
	Hazard ratio	Standard error	Hazard ratio	Standard error	Hazard ratio	Standard error	Hazard ratio	Standard error
Profitability	.9997**	.0001	.9997**	.0001	.9997**	.0001	.9997**	.0001
Public ownership	9.44E-19**	4.40E-18	1.98E-21**	8.95E-21	1.80-E-21**	8.35E-21	3.46E-19**	1.77E-18
Public funding	1.0005	.0013	1.0005	.0012	1.0014	.0010	1.0012	.0009
Political control	1.0012	.0023	1.0019	.0022	1.0010	.0026	1.0024	.0021
Board size (BS)	.9784**	.0074	.9717**	.0094	1.0530**	.0190	1.0467*	.0202
Board diversity (BD)	.9480	.1723	.8405	.1165	2.5290**	.7069	2.3958**	.7621
Mutual society	2.2002	1.1515	2.5324	1.5884	2.0043	1.0872	1.9773	1.3067
BS x BD					.8837**	.0297	.8835**	.0319
Controls								
Organization size	.9999*	.0001	.9999*	.00001	.9999+	.00001	.9999*	.0001
Organization age	.9979	.0022	1.0053**	.0165	1.0015	.0020	1.0512**	.0142
Organization age^2			.9977**	.0008			.9980**	.0006
Urban area	.3684	.2447	.2857+	.2023	.3679+	.2131	.3013*	.1838
GDP per capita change	1.0016	.0036	1.0022	.0035	1.0018	.0035	1.0021	.0033
Leisure spending change	1.0001	.0003	1.0000	.0006	1.0000	.0004	.9999	.0010
Fiscal risk	1.0659	.1590	1.1397	.2196	1.1812	1.547	1.3128+	.2190
Fiscal slack	1.0047	.0731	1.0023	.0702	1.0620	.0609	1.0818	.0691
Observations	890		890		890		890	
Groups	93		93		93		93	
Dissolution events	18		18		18		18	
Log-likelihood	-46.3925		-43.1251		-43.7556		-40.9403	
Wald chi^2	775.96**		1284.56**		1023.27**		979.56**	

Notes: +p<.10; *p < .05; **p < .01. Robust standard errors in parentheses.

Figure 1. Hazard rate for social enterprise dissolution