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**Title: Reconceptualising Social Enterprise in the United Kingdom through an appreciation of legal identities.**

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## **Abstract**

**Purpose:** The objective of this paper is to review current conceptualisations of social enterprise and present a new theoretical model for defining social enterprise in the United Kingdom (UK).

**Approach:** This conceptual paper draws on the rise of social enterprise in the UK context. Social enterprise in the UK emerged around the 1980s, in both political consciousness and as an academic discipline. The paper explores organisational antecedents to develop a conceptual model that prioritises different legal forms of social enterprise in the UK regulatory framework.

**Findings:** In critiquing policy, practitioner and academic publications, as well as the theoretical models that operationalise social enterprise, there are two observations from the literature that this paper examines: (1) Theories to date have tended to conceptualise social enterprise as a single hybrid form, neglecting a consideration of the various legal identities, ownership and governance types; (2) Theoretical models have tended to overlook the cultural, regional and political-economic histories within their conceptualisations.

**Originality/Value:** The value and originality of this paper lies in offering a new paradigm in the conceptualisation of social enterprise in the UK. This is a new contribution to knowledge that strengthens an understanding of the field. This paper creates the space to broaden and appreciate ideologically and operationally different hybrid business types of social enterprises that include charitable, solidarity and entrepreneurial type social enterprises.

**Key words:** social enterprise; policy; regulation; ownership.

## Introduction

Theorists position social enterprises as organisations with aspirations to trade and generate earned income (as opposed to charity or grant finance) as the capital to achieve their social missions (Dees, 1998; Nicholls, 2006a). Nicholls (2006b) suggests that we need to know more about the organisational models and business practices of social enterprises. He refers to a need to understand the ‘DNA’ of social enterprise. There is no single legal structure for social enterprise in the United Kingdom (UK). Scholars researching in the field have on one hand recognised the diversity of the business models (Haugh, 2005; Nicholls, 2006a) and hybrid nature of the sector more globally (Billis, 2010; Doherty *et al.*, 2014; Pache and Santos, 2012). Yet strangely, others give only a cursory glance to the different types of organisational legal structures, ownership and governance forms when conceptualising social enterprise (Alter, 2007; Dees, 1998; Defourny, 2001). The lack of reflection, or the lack of a neatly defined set of terms, has left some exasperated. Many suggest we need to move on from definitional debates, whilst Nicholls (2006b) suggests the search for true meaning is like chasing a Chimera! For others the chase is deemed to be an important and critical to the development of the field. Parkinson and Howorth (2008) argue that there is a necessity for greater theoretical exploration before refining and narrowing the concept of social enterprise. So, despite numerous attempts to define social enterprise, the lack of agreement between scholars and calls to move beyond definition, research in this field appears to be no nearer in providing a convincing theorisation.

Against the call to move beyond definition, this paper provides a critical appreciation of previous attempts to conceptualise social enterprise. In Kerlin’s (2013, p.87) observations of the historical context for theoretical development, she highlights that “Evolving theory in this area [social enterprise] suggests that current institutions largely responsible for shaping different models of social enterprise initially arose from a rich mix of culture, local (including social classes), regional, and global hierarchies, and political-economic histories. These elements structured the development of the present-day state, which then helped shape the current economic situation and civil society, which in turn both influence social enterprise development. Thus we argue that the state ultimately plays a key role in understanding a country’s social enterprise model”. In line with Kerlin’s argument, this paper adopts an approach that assesses the culture, regional and political-economic histories from a UK perspective in order to understand social enterprise models in the UK. This paper presents an alternative view to prior research by reconceptualising organisational types of social enterprise by considering business incorporation in the context of UK legal regulatory frameworks. The argument presented here is that UK social enterprise is an umbrella term for three organisational types; (i) Charity Incorporated Organisations (CIOs); (ii) Co-operative Society Organisations (CSOs) and (iii) Limited Liability Companies, that are constituted for primarily social purposes (LLCs). This approach links and builds on Bull (2008) in appreciating the differences in identity from those social enterprises that constitute via Charity Law, Society Law and Company Law. This paper builds on Ridley-Duff’s (2007) critique of unitarist and pluralist forms of governance, and the argument of whether social enterprise is a ‘not-for-profit’ or a ‘more-than-profit’ business model (Ridley-Duff, 2008). This paper also builds on Kerlin’s (2013) ‘causal paths to social enterprise models’ but takes an organisational context viewpoint, as well as appreciating government’s and other external forces’ role in the development of social enterprise in the UK. This

reconceptualisation is important as the UK is recognised as one of the forerunners to the emergence of social enterprise (Amin *et al.*, 1999; Dey and Teasdale, 2015) and consequently scholars often refer to the UK as an early adopter of this business model (Defourny, 2001).

### **Conceptualising Social Enterprise**

Nicholls (2006a) states that Banks (1972) first coined the term 'social entrepreneurship' to describe value led, democratically owned and governed enterprises, responding to social problems in society. Etzioni (1973), a year later, focuses on the United States (US) and Soviet Union economies, suggesting a movement in public and private management towards a 'third system' that blends both state and private management concepts. He described a reduced state economy and the rise of alternative business models working in sectors servicing what he called 'domestic missions' that are not attractive to the private entrepreneur, as the profit motive is not as great as in other sectors. Etzioni questions the theoretical positioning of this business model as being similar to the public sector, by arguing that entrepreneurship is core, and that the model should be positioned as being closer to the private sector.

The recent emergence of social enterprise in the UK can be pinpointed to a particular timeframe (see Table 1), from the 1980s to 2010 (Ridley-Duff and Bull, 2011; 2016; Sepulveda, 2014; Teasdale, 2011). This period of time was significant, as it encompasses practitioners developing and shaping social enterprise development in the UK (Freer Spreckley, John Goodman, Malcolm Corbett, Pauline Green, Helen Barber, Jonathan Bland and Adrian Ashton to name but a few – see Ridley-Duff and Bull 2016), including publications from adept and respected professionals immersed in the field (specifically; Charles Leadbeater, Andrea Westall and John Pearce). This period of time also saw the development of social enterprise into the political consciousness, under a Labour Government in the UK, from 1997, right up to the end of their reign in 2010. As Table 1 indicates there was a plethora of policies driving, stimulating and encouraging the growth of social enterprise in the UK. This commentary provides a background to the development of social enterprise in the UK, drawing on theoretical models to illustrate conceptualisations in parallel with the shaping of the sector in policy, theory and practice. The author's own involvement in social enterprise in the North West of England ran parallel with the latter end of this timeline. In the turbulence of the emergence of the concept, there were commonalities and contradictions between commentators in their views on the attributes and characteristics of the social enterprise business model. The intention here is to outline the messiness and ambiguity of conceptualisations of social enterprise during this period of time, but also to develop a theorisation that prioritises different legal forms of incorporation in the UK. The research question is, 'Does an appreciation of legal identity support a deeper understanding of the complexity, hybridity and diversity of social enterprise in the UK?'

Social enterprise in the UK was born out of three inter-related socio-political historical contexts (see Table 1): (1) Influential radical left-wing movements within co-operatives and community development institutions (Leadbeater, 1997; Pearce, 2003), taking influence from the emergence of social co-operatives (*cooperative sociali*) in Italy in the 1980s (Sepulveda, 2014). (2) A tool for economic growth within deprived communities, aiming to increase social cohesion, tackle worklessness and social deprivation (Amin *et al.*, 1999; Leadbeater, 1997). (3) A

reshaping and expansion of government funding models for community and voluntary sector organisations that provided opportunities for non-profits to compete in delivering public sector service contracts (Leadbeater, 1997; Westall, 2001).

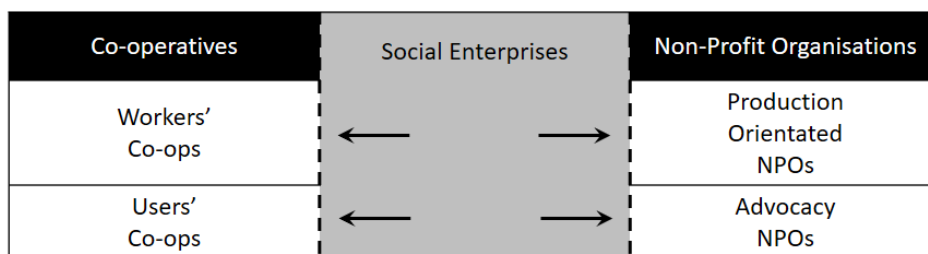
Ridley-Duff and Bull (2011) trace the recent origins of social enterprise in the UK to Freer Spreckley's work in 1981, who devised a co-operative enterprise training manual for social enterprise (Spreckley, 1981). Social enterprise was the term he used in the context of co-operatives and employee ownership. Concurrently, research introducing the idea that traditional business and management concepts could be brought into non-profits, alongside studies critically questioning this assumption, were surfacing in the US in the late 1970s (such as Newman and Wallender, 1978, in *The Academy of Management Review*). By the end of the 1990s the term social enterprise was being used to describe the trend towards a more 'commercial' approach, or as Sepulveda *et al.* (2013), note a 'modernising' and 'transforming' agenda, in non-profits (e.g.; in the US; Dees (1998); and in Europe [notably Sweden] Pestoff (1998). Dees warns of the 'dangers' for non-profits that may be operationally and culturally challenged by commercial funding systems. Dart (2004) concurs that this new 'business-like' model modifies the moral legitimacy of virtuous organisations towards 'pro-market' political and ideological values. None-the-less, the UK was adopting this paradigm shift in the voluntary sector with the political zeitgeist for neo-liberalism and an enterprise culture. A new legitimising force was gaining in global appeal, which was resisted on ideological grounds by the voluntary sector (Dart, 2004). Reid and Griffith (2006) and Johanson and Ostergren (2010) highlight the nature of isomorphism, the latter suggesting a movement to conformity in governance systems to the prevalent institutional norms in a given geographical context. Institutional isomorphism is a problem for social enterprise and the purpose of this paper is to resist such pressures for a single definition to become legitimised over alternatives. The focus here is on acknowledging the multi-faceted nature, breadth and diversity – and indeed resisting the tendencies of agents to claim the authoritative model of social enterprise. In the following section current conceptualisations are highlighted to provide the context for refuting a convergence to a single governance form.

Prior to the emergence of social enterprise in the UK, Dees (1998) in the US and Pestoff (1998) in Europe were theorising a trend towards more commercial approaches in the non-profit sector. Pestoff (1998) outlines European thinking and what he calls the welfare mix between state and enterprise orientation (see Figure 1 adapted from Pestoff, 1998). He draws on Polanyi (1944) to conceptualise a space for the third sector, and social enterprises within that space, as a combination of various actors (state, community and for-profit companies), deploying various logics of action (public, non-profit, private for-profit, informal and formal) and engaged in different economic exchanges (redistribution, reciprocity and market).



In Belgium, the EMES network of European scholars was established in 1996. Enterprising non-profits were conceived slightly different in Europe, where co-operatives feature in the concept. Defourny (2001) highlights the emergence of a new, socially entrepreneurial form of organisation, where social innovation leads to economic change in a number of ways: (1) new services/products, emerging from the crisis of welfare systems, (2) new methods, emerging from multi-stakeholder arrangements, (3) new markets, emerging from state reform and devolution. He conceptualises social enterprise (again as a single identity) as being positioned between traditional non-profits and co-operatives (see Figure 3, adapted from Defourny, 2001).

**Figure 3: Social Enterprise at the crossroads of non-profit and co-operative economies (adapted from Defourny, 2001)**



Defourny states that the social enterprise sector is enlarging. This is not only represented by a growth in new start social enterprises but that the two economies (non-profit and co-operative) are cross pollinating to hybridise. In Defourny's conceptualisation the dotted lines indicating gaps (presumably where organisations hybridise). Therefore, the concept is one of two types of economies in transition into a new hybrid business model. Like Dees, the hybrid nature of this new form of enterprise is unexplored and begs the question as to how a non-profit trustee governance system blends with an ideologically and operationally very different co-operative self-help governance system?

Well over a decade later than Spreckley, Leadbeater (1997) re-contextualised social enterprise within UK welfare reform. He focussed on the withdrawal of the state (from delivering public services) and the individual social entrepreneurs (and their businesses) that tackle social problems, referring to practical examples from health care, housing, sport and youth service. He called for a new corporate structure for social enterprise, to eradicate current practices whereby an organisation may have several arms to their core business model; for example, where a charity incorporates a trading arm as a different legal entity, so that alternative income streams can be captured. Leadbeater draws attention to the tensions between governance norms and practices between the two types of organisation as a barrier to decision making, cohesion and growth.

Politically in the UK the movement towards social enterprise gained momentum as an alternative business model and political reaction to the Thatcher and Conservative Party political administrations of the 1980s (Westall, 2001).



When the Labour Party came to power a new political ideology shifted Thatcher's Conservative Party's 'small' government policies towards more involvement from the state and the rebuilding of (state sponsored) communities (Amin *et al.*, 1999). The concept of The Third Sector gained recognition in the UK after Anthony Giddens (1998) adopted the phrase 'the third way' to describe Tony Blair's political philosophy (Labour Prime Minister in the UK between 1997-2007). As Sepulveda *et al.* (2013) state, the appeal to the political centre-left was of a 'social enterprised' economy as opposed to a 'privatised' economy. The left's attraction was in community engagement and local social value. This enterprised economy was most apparent in the marketisation of public services, which also appealed to the centre-right. The right's attraction was in the continuation of policies to shrink services directly delivered by the state (Sepulveda *et al.*, 2013). Of significance to UK social enterprise development, Ridley-Duff and Bull (2011) outline the development of Social Enterprise London (SEL) in 1998 as the merger of two major umbrella organisations in the co-operative movement. They tell of a founder's story, where Ridley-Duff was involved in the preambles in 1997 from his time at Computercraft Limited, a London workers co-operative, where various co-operatives and their development agencies were discussing a new London-wide social enterprise support agency. In 2002 SEL evolved into the Social Enterprise Coalition (SEC), which as Ridley-Duff and Bull clarify was formed by Co-operatives UK and John Goodman (at the time a consultant with Employee Ownership Solutions Limited), with Jonathan Bland the CEO of SEL moving across to become the Chief Executive Officer of SEC. Thus, the influence of the political left and co-operatives at the practitioner level was instrumental in the creation of these two support organisations for sector development.

In policy circles, Westall (2001) notes The National Strategy for Neighbourhood Renewal Units report "Enterprise and Social Exclusion" (Her Majesty's Treasury, 1999), was the first time the term 'social enterprise' had appeared in a government document. The report was written in relation to social inclusion, regeneration and entrepreneurship in deprived areas, so not exclusively a social enterprise initiative but part of the wider remit for community development. Following the report, The Phoenix Development Fund was set up later in the same year to help all forms of new businesses in disadvantaged communities in England access pre and early start-up financial and non-financial support. The fund was one of many Government financed incentives that were targeted at enterprise as a solution to worklessness and social and economic inequalities. In 2001, the Labour government formed the Social Enterprise Unit (SEU). The SEU was later subsumed within The Office of the Third Sector (OTS) in 2006 (OTS was renamed The Office of Civil Society in 2010 with the change of Government). The formation of the Social Enterprise Unit had a clear role in (i) co-ordinating social enterprise policy, (ii) championing the sector, and (iii) identifying and tackling the barriers to the growth of social enterprises.

In order to highlight the development of the concept of social enterprise in the UK, a timeline of key dates contextualises the period (Table 1). The timeline (Table 1) ends in 2010 with a change of government from Labour to a Conservative and Liberal Democrat Coalition Government. The change of government and political direction and place of social enterprise in the UK is one which needs more space for discussion than covered in this paper.

**Table 1: Timeline of development of Social Enterprise in the UK**

Year	UK social enterprise development timeline
1981	Freer Spreckley, delivering social audit training package to co-operatives, which was coined as a manual for social enterprise. Beechwood College, Leeds.
1997	The Labour Party came into Government
1997	UK think tank publication by Charles Leadbeater - <i>'The Rise of the Social Entrepreneur'</i>
1998	UK Government sponsored the emergence of Social Enterprise London (A collaboration between several co-operative businesses and CDAs)
1999	UK publication by Amin <i>et al.</i> - first academic reference to 'UK social enterprises'
1999	National Strategy for Neighbourhood Renewal Policy Action Team (PAT) 3 Business - within the strategy was the first policy reference to social enterprise. <i>"Enterprise and Social Exclusion"</i> HM Treasury
1999	The Phoenix Development Fund unveiled to support the development of enterprise and entrepreneurship in disadvantaged communities
2001	UK think tank publication by Andrea Westall – <i>"Value Led Market Driven"</i>
2001	UK Social Enterprise Unit set up within the Department of Trade and Industry
2002	First UK Social Enterprise policy <i>"Social enterprise: A strategy for success"</i> (for England only)
2002	Social Enterprise Coalition set up by Co-operatives UK and Employee Ownership Solutions Limited
2003	UK Practitioner publication by John Pearce - <i>"Social Enterprise in Anytown"</i>
2006	UK Government creates The Office of the Third Sector
2006	The Office of The Third Sector unveils <i>"Social enterprise action plan: Scaling new heights"</i>
2010	Change of Government from Labour to Conservative and Liberal Democrat Coalition. A change from Cabinet Office to The Office of Civil Society

Academically, the earliest UK research study embracing social enterprise is Amin *et al.* (1999), in relation to regeneration, neighbourhood renewal and the rebuilding of marginalised communities (related to government initiatives such as the Phoenix Fund and National Strategy for Neighbourhood Renewal). Interestingly, Amin *et al.* state that the Department of Environment, Transport and Regions (DETR) claimed in 1998 that there were 450 social enterprises in the UK, with a combined turnover of £18 million. This is in contrast to ECOTEC Research and Consulting (2003) who suggest 5,300 UK social enterprises just five years later! Both study's claims rest on what they applied as a definition of social enterprise - which they both concede may not be accurate (due to definition and constraints on accessing information). Amin *et al.* (1999) explored sixty case studies and claimed that the UK social economy was at a crossroads. They highlight barriers from the public sector in recognising the sector's value (as self-sustaining as well as community autonomy), funding opportunities, and the acknowledgement that this is a genuine alternative to traditional business and not a bridge between deprived communities and mainstream employment. Concerns about barriers to the growth of the sector were also emerging from Europe. Borzaga and Solari's (2001, p.334) paper outlined some of the management challenges for

social enterprise, they state “Their [social enterprises] multi-faceted mission obliges social enterprises to consider how they can manage commercial activities, which by their very nature require adequate management practices which are typically orientated toward effectiveness and efficiency..... as social enterprises move from reliance on donations and funding to the delivery of goods and services, the balance shifts from advocacy and fund-raising activities to management of quality and customer satisfaction, which in turn requires an increase in operational efficiency”. Borzaga and Solari's (2001) outline the gap in social enterprise management theory, suggesting there is a need for a greater understanding of product/service quality, skills, management expertise and support, finance, networks and governance structures. They conclude with a call for the development of theoretical and practical knowledge on the internal challenges of the management of social enterprises as knowledge cannot easily transfer from other domains. Their call appears to claim social enterprise is a single entity, driven away from a charitable mindset towards an enterprise mindset.

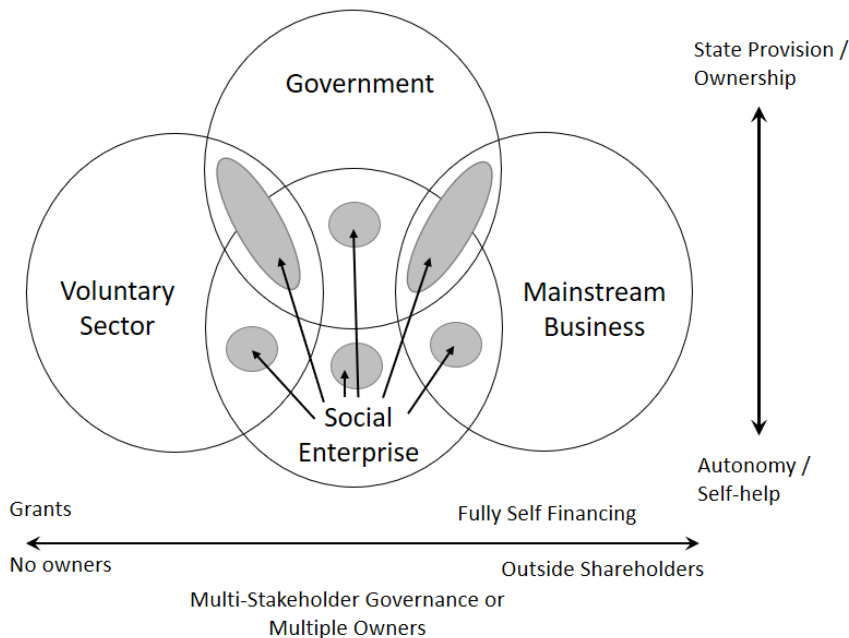
In 2002 the first UK Government strategy for Social Enterprise was launched, the "Social enterprise: A strategy for success" (Department of Trade and Industry, 2002, p.7), outlining a new era and a political framework for the development of social enterprise in England. A three-year focus was outlined to offer an environment for social enterprises to flourish, for Government to gain and promote a 'better understanding' of social enterprise, for their 'abilities' to be better understood and for them to become 'better businesses'. To its credit the Strategy recognised the various organisational forms under the social enterprise umbrella. Yet, as part of the positioning of the sector, the Strategy included a single definition of social enterprise that fails to accommodate all organisational types under the umbrella. It read, “A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners” (p. 7). The same publication went further in stating; “While fledgling social enterprises may derive less than half their income through commercial activity, mature social enterprises aim for close to 100%” (p. 21). Interestingly, the income through commercial activity target goes without mention in subsequent government reports! Further, ECOTEC Research and Consulting's 2003 research for the DTI sought to count the numbers of social enterprises with  $\leq 50\%$  trading income. Whilst The Small Business Survey in 2005 stated their study defined organisations as social enterprise as those with a minimum level of 25% earned income. Lyon *et al.* (2010) provides some clarity in explaining that those organisations with between 25% and 50% trading income are classed as ‘in transition’, whilst those at 50% and above are classified as ‘fully-fledged’ social enterprises. There are a number of questions that arise out of the DTI's claim that mature social enterprises achieving 100% trading income. One question is; Is this to legitimise one form of social enterprise (away from grant dependency of the voluntary sector) over others? This marketised focus is what Defourny and Nyssens (2010) refer to as the 'earned income' school of thought - trading activity as an income source in the changing nature and legitimisation of funding for non-profits. Sepulveda *et al.* (2013) also states, a pressure for charity/voluntary sector types to become more entrepreneurial (autonomously generating commercial revenues, lessening state dependency). Furthermore, the concept of a transition phase is interesting, yet appears to have had little attention in the literature. Seanor *et al.* (2013), empirical research finds the attitudes of practitioners in social enterprise averse to commercial goals and uncomfortable with the new language of social enterprise espoused by

the government drive for economic growth and financial autonomy from the sector. This denial fits with what Pearce (2003) suggestively claims, that social enterprise is not primarily about running a business!

In 2006 the UK Government launched their continuation of support for the development of social enterprise through their subsequent strategy; "Social enterprise action plan: Scaling new heights" (OTS, 2006). Building on "Social enterprise: A strategy for success" (DTI, 2002), the action plan had four main aims; (i) it aimed to foster a social enterprise culture, (ii) to fund agencies to deliver specific business support, (iii) to improve access to finance (iv) to open up a market for social enterprises to deliver public sector services. Intriguingly, the action plan failed to define social enterprise as having a required level of trading income. Consequently, rather than narrowing the parameters and reducing the size of the movement, at a time when the Government sought to grow the numbers, the omission meant a broad church of organisational forms could associate themselves, and be defined, as social enterprise.

Westall's (2001) contribution on social enterprise is from a UK policy/practitioner perspective. She conceptualises a four-sector model (see Figure 4, adapted from Westall, 2001).

**Figure 4: Four sectors of the economy and the space for social enterprise innovation (adapted from Westall, 2001)**



Westall outlines the space for social enterprise as a multi-stakeholder governance (charity type) or multiple owners (co-operative type) fourth sector. The space for social enterprise is interesting as she acknowledges the relationship between the voluntary sector, government sector and private sector at the cross-overs. Westall's conceptualisation interestingly differs from others as it suggests there are different forms of social enterprise. She identifies the

voluntary position as reliant on grants, with no owners. Directors assume a gatekeeper and custodian role, as in those constituted in Charity Law, where Directors assume a dual role as Trustees. The fully self-financing position on the other hand has outside shareholders. Directors assuming a profit-maximising role, as in Company Law. Indeed, changes in UK law in 2006 emphasised that Directors duty 'is to the company', and that a Director must 'act in the way he (sic) considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole' (Section 172.1, as reported in Nordberg, 2012, p. 302). Nordberg points out that 'members' in this context relates to shareholders - not stakeholders, as stated by Johanson and Ostergren (2010). Relatedly, Ridley-Duff and Bull (2016) highlight the different ideologies between social enterprises (see Figure 5), from a pro-market orientation, to a mixed, to an anti-market orientation and from an external focus (benefitting the general public), to a mixed, to an internal focus (benefitting members of the organisation).

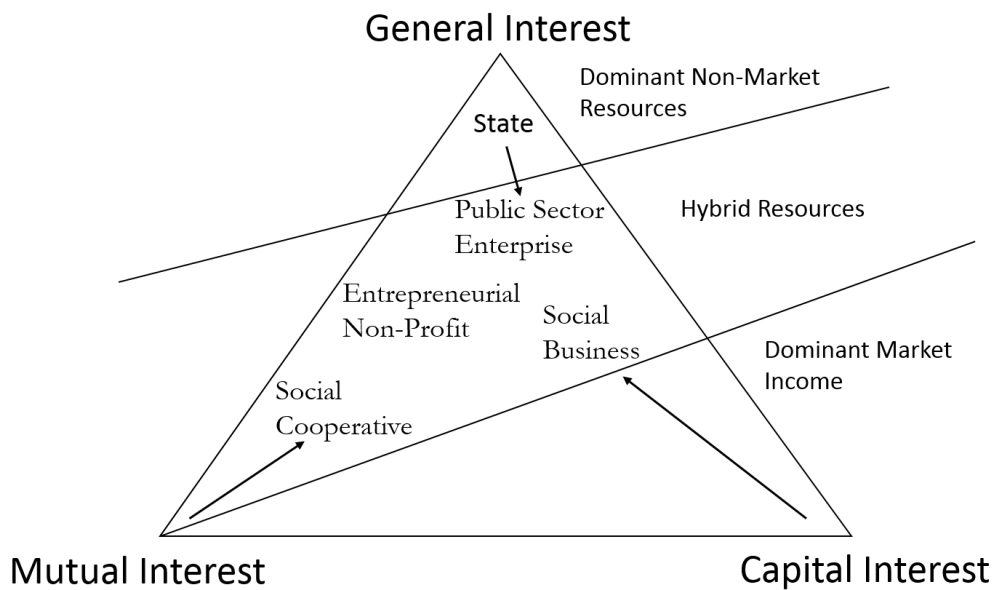
**Figure 5: Theorising orientations within the social economy. (Ridley-Duff and Bull 2016, p, 47)**

	<i>Beneficiary Orientation</i>		
	<i>External</i>		<i>Internal</i>
	<i>Aim to benefit general public or external group</i>	<i>Mixed Orientation</i>	<i>Aim to benefit members of the organisation</i>
<i>pro-market (trading)</i>	Charities and voluntary organisations that trade to fund, or subsidise public services	Multi-stakeholder organisations trading to support more than one stakeholder.	Co-ops that trade to fund members/workers' welfare and secure a sustainable income
<b>Market and Fundraising Orientation</b>	Charities and voluntary organisations that use mixed income strategies to fund a public or community service.	Multi-stakeholder organisations using mixed income strategies to support more than one stakeholder.	"Social" Coops and Friendly Societies using mixed income strategies for the benefit of members
<i>anti-market (fundraising)</i>	Charities and voluntary organisations that fundraise and/or seek grants to deliver a public or community service.	Multi-stakeholder organisations that fundraise and/or seek grants to benefit more than one stakeholder.	Voluntary associations that charge membership fees to provide facilities to members

Alter (2004) (see Figure 6, Ridley-Duff and Bull's 2016 adaption) outlines a similar argument to Dees, with enterprise orientations and social enterprise positioned on a continuum. This model is particularly useful in conceptualising the differences from for profit to non-profit in the distinctions between different business models highlights a step change between those on both the social and economic value creation ends of the economy. Ridley-Duff and Bull's adaptation builds on Alter's original spectrum, whilst highlighting the 'potential' for social enterprise from a wider breadth of business types, which highlights the mixed motives, as captured by Dees (1998), but also opens up various alternatives and possibilities to extend the modelling along similar lines to Westall.



**Figure 7: Institutional trajectories and resulting Social Enterprise models (adapted from Defourny & Nyssens, 2016, 2017)**



As highlighted by these theoretical frameworks there are a patchwork of conceptual lenses through which to view social enterprise. Table 2 summarises the main characteristics of each of the models. They share commonalities in their hybridity, yet the breadth of organisational types within the concept of social enterprise has not been sufficiently acknowledged prior to Ridley-Duff and Bull's typologies and those of Defourny and Nyssens. A concern with narrowing the focus of the concept to one based on commonalities, fails to engage with the differences inherent in the disparate entities that have been badged together as social enterprise.

**Table 2: Conceptual models and Social Enterprise characteristics**

Author	Model	Social Enterprise Characteristics
Pestoff (1998) EU Perspective Figure 1	Social enterprise as a combination of various actors, logics of action and resources.	<ul style="list-style-type: none"> <li>➤ Various organisational types</li> <li>➤ At the heart of social enterprise: private, formal, not-for profit enterprise</li> <li>➤ Mixing; market, reciprocity, redistribution</li> </ul>
Dees, (1998) US Perspective Figure 2	Social Enterprise Hybrid Spectrum	<ul style="list-style-type: none"> <li>➤ One organisational type</li> <li>➤ A new business model that blends philanthropic (social) and commercial (economic) values</li> <li>➤ Mixed motives – mission and market driven</li> </ul>
Defourny, (2001) EU Perspective Figure 3	Social Enterprise at the crossroads of NGOs and Co-operatives	<ul style="list-style-type: none"> <li>➤ One organisational type</li> <li>➤ A hybrid from transition of traditional co-operatives and traditional non-profit organisations into a new business model</li> </ul>
Westall, (2001) UK Perspective Figure 4	Four Sectors of the economy	<ul style="list-style-type: none"> <li>➤ More than one organisational type</li> <li>➤ Within a fourth sector of the economy</li> <li>➤ Organisations can be at the overlaps with the voluntary, mainstream business and government sectors – or in a new the fourth space – independent of the three traditional sectors</li> <li>➤ Having multi-stakeholder governance or multiple owners</li> <li>➤ Along a spectrum from grant to fully social enterprise self-financing</li> </ul>
Alter (2004) US Perspective Figure 6	Sustainability equilibrium	<ul style="list-style-type: none"> <li>➤ Social Enterprises have commercial methods to support social programs</li> <li>➤ Social Enterprises create social value</li> <li>➤ Social Enterprises are socially sustainable, and more economically sustainable than traditional non-profits</li> </ul>
Defourny & Nyssens (2016) EU Perspective Figure 7	Institutional trajectories and resulting social enterprise models	<ul style="list-style-type: none"> <li>➤ 4 types of social enterprise</li> <li>➤ Emerging from mutual, general (state) and capital interests</li> <li>➤ Mixed non-market, hybrid and market income based social enterprises</li> </ul>

To summarise the argument so far, this paper has positioned social enterprise in an historical timeline from the emergence of the concept to an important phase under New Labour in the UK. In that time considerable progress has been made in the field. As Table 2 shows, the concept of social enterprise is multi-faceted and can be conceived in many different ways. The poem used in Mintzberg *et al's.* (1998) Strategy Safari book; *'The Blind men and the Elephant'* is useful here, in reflecting on how different theorists have positioned social enterprise. As the poem goes, the blind men went to find out about the creature that was approaching their village. Each blind man came back reporting a different story of what the elephant was like, based on which part they had touched. This is similar to the differing and singular, ways used to describe social enterprise: Pestoff (1998) [Figure 1] outlines social enterprise within a theoretical space, defined as formally constituted organisations that have private, non-profit ownership. Dees (1998) [Figure 2] reports that social enterprises are non-profit organisations that blend philanthropic and commercial principles. Defourny (2001) [Figure 3] conceives social enterprise as a new form of



business, a merger of co-operatives and non-profit organisations. Westall (2001) [Figure 4], positions social enterprise within a fourth sector, which incorporates innovative business models to address social needs. Alter (2004) [Figure 6], sees social enterprise with a social value purpose supported by commercial strategic methods. Defourny and Nyssens (2016) [Figure 7] outline social enterprise as four types of organisations; social businesses, social cooperatives, enterprising non-profits and public sector social enterprise.

An analysis of differing visual conceptualisations of social enterprise are at the heart of this paper. The core question is how might a reconceptualisation of social enterprise capture the complexity, hybridity and diversity of social enterprise in the UK?

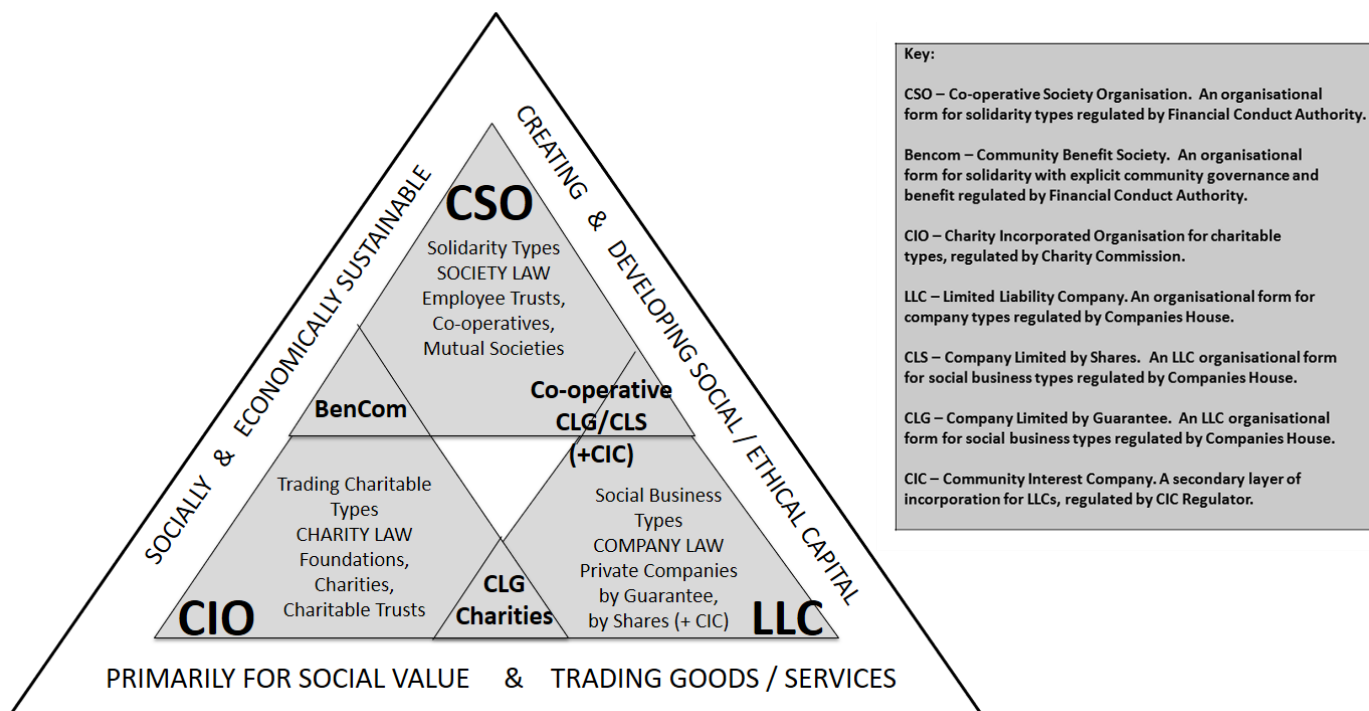
## **Reconceptualising social enterprise in the UK**

In this section of the paper a reconceptualisation of UK social enterprise is presented. Prior research within this journal has focused on social entrepreneurship. For example, research on social entrepreneurial identity (Jones *et al.*, 2008); strategic management and orientation (Glaveli and Geormas, 2018); social enterprise orientation (Kraus *et al.*, 2017) and social innovation (Padilla-Melendez *et al.*, 2014; Zebryte and Jorquera, 2017) has provided some thoughtful examination of the field. However, whilst Zebryte and Jorquera (2017) mention the legal identity of the social entrepreneurs in their study (B-Corps), the discussions to date do not differentiate the practices of social entrepreneurship across incongruent legal forms and philosophical ideologies of governance and ownership. Likewise, in terms of theoretical modelling to date, as highlighted in this paper, some of the literature describes social enterprise as a singular concept (Alter, 2004; Dees, 1998; Defourny, 2001). This view is problematic because as Peattie and Morley (2008) argue, social enterprise is an umbrella term which encompasses a variety of organisational types, with different ownership structures and governance practices. Hence, acknowledging contrasting legal identities may support alternative ways of theorising social entrepreneurial identity, social enterprise orientation and social innovation beyond studies to date as social entrepreneurship does not exist in a vacuum, outside of the ideologies of the business models adopted by social entrepreneurs, nor outside of political-economic histories of the organisations they form.

This reconceptualisation seeks to outline the regulatory frameworks for social enterprise in the UK. In doing so the focus is on capturing each route to social enterprise. It is the work of Ridley-Duff (2007; 2008) and Ridley-Duff and Bull (2011; 2016) that highlights legal identities, ownership and governance arrangements, identifying differences between types of social enterprises from which this reconceptualisation builds. Haigh *et al.* (2015), outline three broad legal structures for social enterprise in the US; (1) for profit with a strong social mission, (2) non-profit that earns some or all of its revenue and (3) mixed-entity hybrid, mixing type to be adapt to the external environment. Whilst Haigh *et al.* take a practical approach, Ridley-Duff's (2007) seminal work on the differences between unitarist governance (elitist democracy and independent/outsider boards) outlook and a pluralist (stakeholder democracy and dependent/insiders boards) outlook is influential in the shaping of this reconceptualisation. Ridley-Duff (2007) offers a perspective that there are two philosophical routes to tackling social exclusions, the unitarists route and the pluralists route. Unitarists forms of social enterprise tackle social exclusion by targeted actions deliberately governed by a selective, impartial, group, where wealth is asset locked.

Pluralists forms of social enterprise tackle social exclusion by deliberately enfranchising excluded groups, bringing them into the governance, ownership and wealth distribution of the organisation. Figure 8 reconceptualises social enterprise in the UK to include legal identities and the differences between organisational forms.

**Figure 8: Legal Incorporations of three core types of Social Enterprises in the UK and their overlaps**



In this model there is an outer triangle which represents the consensus of four general principles of social enterprise. The general principles are those characteristics that many theorists claim of social enterprise; (i) trading goods and services, (ii) primarily for social value, (iii) social and economic sustainability and (iv) the creation and development social and ethical capital. Firstly, trading goods and services. Nicholls (2006a) suggests there has been broad consensus that social enterprises are engaged in trading. This is also identified in Dees’s (1998), although he identifies this may not be at full market rates or full cost recovery. Westall (2001) appears to suggest that ‘fully self-financing’ is something only those social enterprises that overlap with mainstream business attain. How much trading in relation to other forms of income is something still under theorised. Lyon *et al.* (2010) claim, social enterprise is somewhere between those trading at more than 25% (termed as moving towards) and those trading beyond 50%, whilst, Dees (1998) indicates donor/grant and below-market rate capital as the mixed receipts of social enterprise.

Secondly, as outlined by EMES, social enterprises are viable and continuous in their operations, meaning they strive for ‘social and economic sustainability’. Sustainability is most evident in Alter’s (2004) conceptualisation, suggesting social enterprises seek to balance commercial and social objectives. Put simply they are not short-term solutions, projects or activities.

Thirdly, previous conceptualisations support the notion that social enterprises are driven by both social and economic values (Dees, 1998), expressed as a mission motive, not a profit-making motive by Alter (2004). Thus, despite this duality and fundamental to their *raison d'être* they are 'primarily for social value' (Pearce, 2003).

Fourthly, social enterprises are values led organisations that engage people in a different way to their counterparts in the private sector. As Alter (2004) spectrum model has it, those with a mission motive are accountable to their stakeholders, whereas those with a profit-making motive are accountable to their shareholders. Bull *et al.* (2010) argue that a heightened interest in ethics is attributed to issues like the banking crises, pay awards, ecological sustainability and global warming is warranting business' closer attention to their wider responsibilities to their communities. Movements like Fair Trade, and organisations like Timberland, Ben and Jerry's, Lush and The Body Shop attempt to appeal to a society that is becoming more concerned with social issues (Bull *et al.*, 2010). Tsukamoto (2005) offers that ethical capital conveys the asset of morality in an organisation. Leadbeater (1997) highlights social capital as instrumental in the development of social enterprise. Amin *et al.* (2002) go further, suggesting social capital is the goal of social enterprise. Thus, social enterprises are driven to 'create and develop social and ethical capital'.

Those organisations which meet the four general principles could be defined as social enterprise – but there is more to consider. The inner three triangles integrate the organisational antecedents; charitable, solidarity and entrepreneurial types of UK social enterprises with legal identities; Charity Law, Company Law and Society Law. Building on Snaith (2007), Figure 8 conceptually captures the concept of the three main legal forms of social enterprise in the UK. The framework seeks to bring together both the theory and practice of social enterprise in the UK from a new perspective. Taking each in turn;

### **Charitable Incorporated Organisations (CIOs).**

Charitable Incorporated Organisations (CIOs) are underpinned by a philanthropic ideology (Dees, 1998) and unitarist philosophy (Ridley-Duff, 2007). As Low (2006) outlines, 'charity type' social enterprises follow a stewardship model of governance. There are no owners in charities, and in the governance of these types is a separation between decision maker (strategic, unpaid, Trustee Board), operational staff (employees) and the users of services (clients). Fundamental is what Morgan (2008, p. 3) states is an "absolute willingness to give everything for the sake of another". The Trustee board are outsiders to the operational dealings of the organisation, in post to make decisions in the best interests of the social mission and charitable cause, without a conflict of interest, meaning, without thought for personal gain from any decisions, a custodian model. There are tensions in satisfying the level of trading income in CIOs, which means some organisations ebb and flow in and out of meeting the criteria of social enterprise due to the ratios in grant and trading income year by year. Thus, the numbers of bona fide CIO social enterprises is a somewhat movable target.

## **Co-operative Society Organisations (CSOs).**

Co-operative Society Organisations (CSOs) are ‘solidarity type’ social enterprises. In contrast to CIOs, CSOs are organised by the principles of mutual and democratic ownership, governance and management (Banks, 1972; Spreckley, 1981). CSOs organisational ideology is based on self-help, membership and democratic participation (Low, 2006). A CSOs identity is based on solidarity and equality, thus, wealth distribution is a dividend of participation in a co-operative society, what Ridley-Duff calls pluralism in the form of egalitarian democracy, one member one vote. Directors are elected by members of the organisation or there is a stakeholder democracy, achieved using multi-stakeholder ownership and governance arrangements (Ridley-Duff, 2007).

## **Limited Liability Companies (LLCs).**

Limited Liability Companies (LLCs), that are constituted for primarily social purposes, are ‘social business’ types of social enterprise. Social Businesses that are incorporated as LLCs may be driven by a social entrepreneur, who is the founder and/or the sole individual behind the business. In many instances the social entrepreneur seeks to retain decision making control of the business and constitute as a social enterprise, yet retain the same power and status of a private sector entrepreneur-led for-profit business. In the UK the Community Interest Company (CIC) is a vehicle for such endeavour, where a single Director can have control of the business, whilst the profits are capped and the social mission is protected by law and the CIC Regulator (Ridley-Duff, 2008; Ridley-Duff and Bull, 2016). LLCs can also be either aligned to stewardship or democratic governance and ownership models. Thus, LLCs can take three forms; (i) similar to CIOs with, stewardship governance, no owners (Company Limited by Guarantee) model and in instances also listed as Registered Charities. (ii) similar to CSOs with democratic governance and ownership (Company Limited by Shares) model. (iii) an investor (Community Interest Company) model which protects wealth using an asset lock and profit distribution cap by Law, with stewardship or democratic governance and ownership (see Chew, 2010).

Significantly, the central space of Figure 8 is empty! A conceptualisation of social enterprise in the UK has no ‘ideal’ type - as there is no single legal identity – hence the space. The three organisational types of social enterprise come from different organisational heritages, which have been arguably ignored in conceptualisations to date. In acknowledging, and also highlighting, that organisations can straddle two bodies of law: The Community Benefit Society (Bencom) organisation type is incorporated and regulated under both Society and Charity law. The Company Limited by Guarantee (CLG) - Charity type - is incorporated under both Charity and Company law. Finally, a Company Limited by Shares (CLS) or CLG - Co-operative type can be incorporated in Company law but operate with democratic principles associated with solidarity types.

In sum, there are three core types of social enterprise: charitable, solidarity and entrepreneurial types. This theorisation of the three core types is offered in terms of prioritising their constitution in law, through their

incorporation and regulation, rather than emphasising a non-profit or more-than-profit perspective (building on Bull 2008). Social enterprises are hybrid enterprises that are influenced in composition by their historical/preferential constitutional roots. By considering the recent historical antecedents (1980s - 2010) and the three legal constitutions of social enterprise (Company, Charity and Society Law) this theoretical framework puts forward a case for previously excluded organisational identities to be regarded in the theorising of social enterprise. In looking at the differences between those that are constituted by Company, Charity and Society Law (Bull, 2008), this paper highlights that they are different organisational forms with characteristics that cannot be reduced or simplified to 'trading' and 'social purpose'. This paper highlights that their individual business models identify them more aptly than a single definition of social enterprise can. This paper builds on Ridley-Duff's contribution, in acknowledging the differences within social enterprises, but deviates away from a philosophical level to focus onto the differences of incorporation, whilst retaining that incorporation is inherently related to rules on Articles of Association and Model Rules that align with the legal requirements in each type of enterprise (unitarist and pluralist governance). In charities the law assesses against the charitable purpose. Charity law also assesses against the finances under the stewardship of the shareholders/guarantors. Whilst in Societies (co-operatives) the law assesses against democratic member control. Despite some practical choices such as organisations may choose a charitable type social enterprise incorporation as it is preferential for those organisations trading with public authorities and local government bodies, particularly where service contracts are not at full cost recovery and where an asset lock is required for securing charitable funding to balance the books and achieve financial sustainability. Likewise, Limited Liability type social enterprises, without charitable status incorporated by Guarantee (i.e.; constituted with no shareholders) can also compete for funding from public authorities and local government bodies. Alternatively, Limited Liability type social enterprises, without charitable status incorporated by Shares (i.e.; constituted with shareholders, that can take dividends) cannot compete for funding from public authorities and local government bodies in the same way, as the asset lock does not apply. This restricts their ability to qualify for charitable funding but opens up other sources of income, such as community share offers and investor shares. Co-operative types of social enterprise for example are a better vehicle for raising finance from staff, suppliers, customers and investors, that are not open to charitable and Limited Liability Guarantee legal forms.

## **Conclusion**

This paper reviews the recent socio-political local history of social enterprise in the UK from multiple perspectives; practitioner, political and academic literature, comparing and contrasting models and concepts to date. The focus is on visual representations that articulate a theoretical positioning of social enterprise during the recent emergence of the concept in the UK in the 1980s. This is followed by a reconceptualisation model that seeks to overcome the disparity and shortcomings of concepts to date, whilst highlighting the messiness and ambiguity within the socio-political climate of the time. This paper clearly critiques the development of social enterprise in the UK, which was popularised during the 1990s under a Labour Government that sought to re-engage 'socially damaged Britain' (Amin *et al.* 1999) through regeneration strategies in deprived communities and public-sector reforms in community, enterprise and health and social care (Leadbeater, 1997). The Government's social enterprise strategy,

"Social enterprise: A strategy for success" (DTI, 2002), followed by "Social enterprise action plan: Scaling new heights" (OTS, 2006) both sought to develop the sector and build 'better businesses' from social enterprises.

Despite numerous attempts to define social enterprise, as well as calls to move beyond definition, the field appears to be no nearer in providing an all-embracing conceptual model of social enterprise. Therefore, the contribution to knowledge here is in examining the organisational antecedents in identifying and acknowledging how different forms of social enterprise have different cultural and political-economic histories, which entrench choices in business incorporation. The question this paper sought to discuss was, 'Does an appreciation of legal identity support a deeper understanding of the complexity, hybridity and diversity of social enterprise in the UK?' In answering this question the paper has provided a reconceptualisation that embraces the multifaceted nature of social enterprise. As history shows, the concept of social enterprise is multi-faceted and can be conceived in a myriad of ways and we should be wary of attempting to rely on one hegemonically dominant model of social enterprise. In response to the research question, this paper offers a new theoretical model that identifies social enterprise in the UK through three core legal incorporations. This contrasts starkly with the tendency for definitions to focus on economic sectors or the blending of one organisational form with another. The three types; (i) Charitable Incorporated Organisations (CIO) Charitable Type, (ii) Co-operative Society Organisations (CSO) Solidarity Type and (iii) Limited Liability Companies (LLCs) that are constituted for primarily social purposes Social Business Type clearly builds on previous research, whilst recognising the general principles of trading for social purpose within a financially sustainable business model.

The implications of the model proposed in this paper are numerous. The model provides a new and alternative way of perceiving social enterprise. For policy makers, this paper provides an opportunity for re-evaluating their support services targeted at the sector, such as providing bespoke business support to the diverse and differing knowledge and skills needs across each type of social enterprise. Furthermore, this paper aims to help new entrants and existing practitioners to self-identify where best to position themselves and their organisations - be that for ideological or practical reasons. For academics, there are opportunities for further research to build on this model. A research agenda might incorporate a number of avenues: Firstly, this paper provides a foundation to explore the nuances of social entrepreneurship across the three legal types, building on research such as that of Zebryte and Jorquera, (2017). Secondly, this paper has brought attention to the nuances of trading income and transition phases from traditional business models to bona fide social enterprise, which needs further research, building on the work of Lyon *et al.* (2010). Thirdly, this paper provides a baseline to theorise UK social enterprise development beyond 2010, in terms of - for example; the Big Society agenda, austerity politics or the political landscape under Theresa May's tenure. Fourthly, the model in this paper also provides the grounding for trans-national studies similar to the work undertaken through the ICSEM project (Defourny and Nyssens, 2016), which is working towards a global mapping of social enterprise. Fifthly, the paper provides the basis for further scholarly research in refining and building on the theorisation of social enterprise and legal identities from other parts of the world. Finally, the model also provides a way to map the number of social enterprises, which has so far eluded the UK government in their quest to promote social enterprise as a growing and important business model in the 21<sup>st</sup> century.

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