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Shape sorting: Towards Defining Social Enterprise in the UK

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Abstract
The objective of this paper is to conceptualise social enterprise in the UK. Through an analysis of various theoretical positions this paper argues that current theory fails to fully represent the variety of organisational types that are coined ‘social enterprise’. There are numerous theoretical conceptualisations positioning social enterprise in various contexts and continents. This paper tracks the rise of social enterprise in the UK from the 1980s to the 1990s. A decade where the concept emerged and formed in both the political consciousness and as an academic discipline. The focus of the analysis here is on five key theoretical models that have influenced knowledge building, yet fail to fully appreciate the breadth of organisational types within the concept. The model presented in this paper seeks to overcome the disparity and shortcomings of concepts to date.

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 inclusive model of social enterprise. Shape sorters do not allow people to put square blocks in round holes, triangular in hexagonal. None of the shapes are the same and none of the holes are the same, so you cannot put everything through the same hole. The analogy is similar to social enterprise as there are different types of organisations. They are not all the same. Therefore, the contribution to knowledge here is in identifying and acknowledging the different forms of social enterprise. This paper provides a conceptualisation that embraces the multifaceted nature of social enterprise, which has previously and predominantly been a search for a one-size, fits all.

The implications for academics is in new ways of grappling with the concept that provides teaching material as well as scholarly research. For policy makers in re-evaluating their engagement in the sector and for practitioners in positioning themselves, whilst appreciating the various organisational types that can be conceived as social enterprises.

The value of this paper lies in the conceptualisation of social enterprise in the UK. This is a new contribution to knowledge that strengthens the understanding of the field. The model provides the basis for further scholarly research in refining and building on the theorisation of social enterprise from a clearer position.

Key words: Social enterprise: social business: trading charity: democratic business: conceptual models

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Introduction

There is no single legal structure for social enterprise. As Peredo and McLean (2006) and Peattie and Morley (2008) outline, scholars researching in the field on one hand have recognised the diversity of the business models (Haugh 2006, Nicholls 2006a) and hybrid nature of the sector (Billis 2010, Pache and Santos 2012, Doherty 2014). Yet strangely, on the other hand, others give only a cursory glance to the different types of organisational forms when conceptualising the concept as a single entity (Dees 1998, Alter 2007, Westall 2001). The lack of reflection, or the lack of a neatly defined set of terms has left some exasperated. As Nicholls suggests, the search for true meaning is like chasing a Chimera (2006b)! 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 an inclusive conceptualisation.

Against the call to move beyond definition this paper provides a critical appreciation of previous attempts to conceptualise social enterprise in the context of the UK. This paper presents a unique contribution to knowledge and alternative foci in presenting a theoretical conceptualisation of organisational types of social enterprise through incorporation within the UK legal regulatory frameworks.

The UK context highlights as a particularly significant country in the development of social enterprise (Amin, et al, 1999; Dey and Teasdale, 2015). Recognised as one of the forerunners to the emergence of social enterprise globally, scholars often refer to the UK in relation to other continents. Previous research pinpoints the emergence of social enterprise in the UK to a particular timeframe, from the 1980s to the 1990s (Ridley-Duff and Bull 2011, 2015; Sepulveda (2014); Teasdale 2011).

Historically social enterprise in the UK was born out of three inter-related contexts in the 1990s: (1) Influential radical left wing movements within co-operatives and community development institutions (Leadbeater 1997; Pearce 2003; Ridley-Duff and Bull 2011), taking influence from the emergence of ‘social co-operatives (co-operative sociali) in Italy in the 1980s¹ (Sepulveda 2014). (2) A tool for economic growth within deprived communities, increasing social cohesion, tackling worklessness and social deprivation (Leadbeater 1997; Amin, et al 1999) and (3) A reshaping and expansion of government funding models for voluntary sector organisations, namely opportunities for social economy organisations to compete for delivering public sector contracts (Leadbeater 1997; Westall 2001; Teasdale 2010). These three contexts are fleshed out in the commentary, yet, as I highlight, these disparate origins of social enterprise are not always acknowledged in the discourses of the concept. The following commentary charts theoretical conceptualisations of social enterprise.

Conceptualising Social Enterprise

Nicholls (2006a:7) states that Banks (1972:53) first coined the term ‘social entrepreneurship’ in the context of value led, democratically owned enterprises, responding to social problems in society. Etzioni (1973), a year later, focuses on the 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. Social enterprise in the UK, in Ridley-Duff and Bull (2011), is traced to Freer Spreckley's work in 1981, who devised a training manual for social enterprise, from his time at Beechwood College in Leeds (Spreckley 1981). The manual describes a process for co-operatives to prove their impact against economic, social and environmental criteria. Social enterprise is the term he uses in the context of co-operatives, democracy and employee ownership.

¹ The European nature of development was focused on work integration, employment for people with disabilities. This is not presented here as one of the three main reasons for the emergence of social enterprise. Yet it was of importance, with the establishment of Social Firms UK (as support organisation for the development of Social Firms) and Remploy Limited, as a direct employer of a high proportion of people with disabilities across the UK.
Politically in the UK the movement towards social enterprise gained momentum under a Labour Government. In 2002 the first UK Government strategy for Social Enterprise was launched, the "Social enterprise: A strategy for success" (DTI 2002), 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 and to 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 on reflection 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.

The DTI, in the "Social enterprise: A strategy for success" (2002), go further in stating (2002:21);

While fledgling social enterprises may derive less than half their income through commercial activity, mature social enterprises aim for close to 100%.

This however goes without mention in subsequent reports. Interestingly, ECOTEC’s 2003 research for the DTI sought to count the numbers of social enterprises with <=50% trading income. Whilst The Small Business Survey in 2005 stated their study defined organisations as social enterprise with a minimum level of earned income of 25%. 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 fully-fledged social enterprises. However, research fails to refer back to the DTI's claim of mature social enterprises achieving 100% trading income. This 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 of funding for non-profits. As Sepulveda et al (2013) state, a pressure of becoming more entrepreneurial (autonomy and 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, 2014).

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 (eg; in the US, Dees 1998; and in Europe [notably Sweden] Pestoff 1998). Scholars have consistently positioned social enterprises as organisations with aspirations to trade and generate earned income (opposed to charity or grant finance) as the capital to achieve their social missions (Dees 1998; Nicholls 2006a). However, Dees warns of the 'dangers' for non-profits that may be operationally and culturally challenged by commercial funding systems (1998:56). Dart (2004) concurs that this new 'business-like' model modifies the moral legitimacy of virtuous organisations towards 'promarket' political and ideological values.

We now turn to an overview of key conceptual models with the purpose of critiquing each of the models characteristics:

1. Pestoff (1998) conceptualises a triangle to articulate the place of social enterprise within a ‘welfare mix’. He dissects the role of the state (redistribution), community (reciprocity) and for-
profits (market), positioning social enterprise as taking various forms within a private/market/non-profit space.

2. Dees (1998) conceptualises a 'social enterprise hybrid spectrum', which Peattie and Morley (2008) claims the model to have influenced the entire UK research agenda. Dees' spectrum proposes that social enterprises are the result of a transition, a hybrid type of organisational form that blends two very different ideologies in equal measure, mission (social value) and market (economic value). Boschee (2006) offers a comparable analogy of a changing tide in England's voluntary and community sector. Although this model represents the US non-profit sector, this fails to fully relate across to the diversity of organisational forms in the UK social enterprise sector.

3. Westall (2001) 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. She identifies the voluntary position as reliant on grants, with no owners. Directors assuming a gatekeeper and custodian role, as in those constituted in Charity Law, where Directors are Trustees. The fully self-financing position on the other hand has outside shareholders. Directors assuming a profit-maximising role, as in Company Law. In Westall’s model social enterprises are positioned in-between the two positions, yet also in the cross-overs. She explains that the fourth sector represents organisations that have (socially) innovatory practices, breaking free from 'historical baggage' (2001:24). Therefore again, it would appear that social enterprises are being defined with shared characteristics as the focal point.

4. Pearce (2003) claims social enterprise is - 'not primarily about running a business' - in the sense of maximising profits for individual wealth creation (2003:34). In making sense of the place of social enterprise in the economy Pearce’s three systems model outlines public, private and social economies, where social enterprises are seen as part of the third (social economy) system. Pearce identifies social enterprise as being closer to the first (private enterprise) system. The model is useful in demarking social enterprise as a trading business, within the third system of the economy. However, the model fails to address the relationship that social enterprises have with the state - delivering services in the planned provision of the economy, which is represented in Westall's model.

5. In Alter's (2004) theoretical model, she highlights the hybridity from traditional for-profit businesses to traditional non-profits, through business models positioned in terms of their level of social value. The rise of responsible business represents a movement in mainstream business towards a more conscious business model. On the other hand social enterprise represents a movement in traditional non-profits towards more commercial activities. The lines of distinction are divided by Alter (2004) on motive, accountability and what happens with profits. Alter's perspective, like Dees (1998), is one of non-profits becoming more enterprising alongside a business model that reinvests income in the business.

Summary
As highlighted from all these theoretical frameworks there are a patchwork of conceptual lenses through which to view social enterprise. Table 1 summarises the main characteristics of each of the models. As Table 1 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 came back reporting a different story of what the elephant was like, based on which part they had touched. This is similar to the widely differing ways used to describe social enterprise. Pestoff (1998) reports a non-profit/independent market orientated organisation. Dees (1998) reports that social enterprises are non-profit organisations that blend philanthropic (social) aspects with commercial (economic) ones. Westall (2001), positions social enterprise as a
Shape sorting: Towards Defining Social Enterprise in the UK

fourth sector, which incorporates innovative business models to address social needs; Pearce (2003), sees social enterprises as trading organisations in a social economy, whilst Alter (2004), sees them as sustainable, mission driven, evolving non-profits. Many share commonalities in their hybridity, yet the breadth of organisational types within the concept of social enterprise is not sufficiently acknowledged. 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>
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<tr>
<th>Authors</th>
<th>Model</th>
<th>Social Enterprise Characteristics</th>
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| 1 Pestoff (1998) | Social Enterprise an hybridity of competing logics | ➢ Non-profit distributing  
➢ Market based  
➢ Private (non-state) |
| 2 Dees (1998) | Social Enterprise hybrid spectrum | ➢ A blend of philanthropic (social) and commercial (economic) values.  
➢ Mixed motives – mission and market driven. |
| 3 Westall (2001) | Four sectors of the economy | ➢ Within a fourth sector, which can be at the overlaps with voluntary, government or mainstream business sectors or occupying a fourth space independent of the three sectors.  
➢ Having multi-stakeholder governance or multiple owners.  
➢ Along a spectrum from grant to fully self-financing. |
| 4 Pearce (2003) | Three systems of the economy | ➢ Within the social economy, on the market driven trading side of the economy, in a third system.  
➢ Close to the profit orientated system.  
➢ Different to voluntary organisations.  
➢ Including community enterprises, mutuals, social businesses and also some worker co-operatives. |
| 5 Alter (2004) | Hybrid spectrum | ➢ Having a mission motive, stakeholder accountability with income that is reinvested in social programs or operational costs.  
➢ Different to non-profits with income generating activities.  
➢ Different to socially responsible businesses. |

Table 1: Conceptual models and social enterprise characteristics

I have made reference to theorisations that highlight messiness, ambiguity and relationships to other parts of the economy. It is these theoretical explorations that lead me now towards a new conceptualisation of social enterprise. I am attempting here to unpack the complexity, in order to highlight, appreciate and acknowledge the breadth of organisations that are considered social enterprise.

Re-conceptualising social enterprise in the UK

In turning to where there appears to be some consensus in the defining principles. Firstly, as Nicholls (2006a) suggests, there has been broad consensus that social enterprises are engaged in the trading of goods and services. This is 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. Whilst Pearce (2003) positions social enterprise nearest the private system, in the market side of the economy, which outlines the significance of trading in his theoretical model.

Secondly, social enterprise, as outlined by EMES, are viable and continuous in their operations, meaning they strive for social and economical sustainability. 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%. Sustainability is most evident in Alter’s (2004) conceptualisation as elsewhere, whilst, Dees (1998) indicates donor/grant and below-market rate capital as the mixed receipts of social enterprise.

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 profit-making motive by Alter (2004). Thus, despite this duality and fundamental to their raison d’être they are primary 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 Bodyshop reflect a more moral age in society (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 (Bull, et al 2010).

However, beyond these four general principles the organisational forms that are charged with delivering against these principles differ. It is this difference where I wish to focus.

I propose a new theoretical framework for theorising social enterprise. I think there is room for a greater understanding of the different forms of social enterprise in the UK and a refining of the concept. How I see this developing is through a further mapping of the sectors, to which Westall's fourth sector model is growing in its appeal in my research (Ridley-Duff and Bull 2015).

As Westall's (2001) model suggests, there are four types of social enterprise; (i) a hybrid of mainstream business, (ii) a hybrid of voluntary sector types, (iii) a state funded type and (iv) a hybrid form as previously stated that breaks free from historical baggage.

Building on Snaith (2007), Bull (2008) outlines there are three routes to incorporation for a social enterprise; (i) Charity Law, regulation of trading charitable types of social enterprise (organisations with community and voluntary organisational origins). (ii) Society Law, regulation of solidarity types of social enterprise (organisations with co-operative and mutual origins) and (iii) Company Law, regulation of private social business types by guarantee or by shares (organisations with mainstream business origins).

These three routes create very different types of enterprise, all with the previously outlined shared principles. In moving a model forward, my thoughts are in merging Westall's (2001) model, with the incorporation forms from Bull (2008). Figure 1 captures my current attempt at a clear concept for three main types 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.

To explain the model; the labelling in capitals around the outer triangle represents the 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.

The inner three triangles are the operationalisations of social enterprise. There are, somewhat confusingly, several forms of social enterprise in the UK. They can however be operationalised through three different incorporation models. Essentially three core types of social enterprise: ‘Solidarity’ types, ‘Trading Charity’ types and ‘Social Business’ types. I propose a theorisation of
the three core types in terms of their constitution in law, through their incorporation, rather than
from a sector perspective. I acknowledge, and also highlight, organisations that straddle between
two types: The Community Benefit Society (Bencom) organisation type, incorporated in both
Society and Charity law. CLG Charity type, incorporated in both Charity and Company law.
Finally, CLS/CLG Co-operative type, incorporated in Company law but operating with democratic
principles associated with solidarity types.

Trading Charity Types
Trading Charity types are incorporated as Charitable Incorporated Organisations (CIO). In terms of
Charity Law, there could be considered three types of organisations on a spectrum towards social
enterprise. These are transition types from traditional non-profit charitable types, which would be
those totally reliant on grant income. Charities with between 25-50% trading income could be
considered as in transition. Whilst bona fide Trading Charitable Types of social enterprise are those
with more than 50% trading activities (meeting the Social Enterprise Mark 2011 criteria). Understandably,
movement happens between these levels of trading income based on grants and contracts undertaken in individual organisations – to say positioning is not static (Seanor et al 2013, 2014).

Solidarity Types
Bona fide Solidarity types are incorporated as Co-operative Societies. In terms of Society Law,
there could be considered three types of organisations on a spectrum towards social enterprise:
Employee representation in an organisation provides some effort towards solidarity and transition. Type two a single stakeholder shared ownership, whilst type three the bona fide is the multi-stakeholder types of social enterprise that work to address member and non-member social value.

**Social Business Types**

Social Businesses are incorporated as Limited Liability Companies (Company Limited by Guarantee, Company Limited by Shares). In terms of Company Law, there could be considered three types of organisations on a spectrum towards social enterprise. This flows from mainstream businesses, these organisations provide some level of social responsibility - to the state, to employees and to their customers, yet in terms of assets and profit distribution their responsibility is to their Directors. Secondly, responsible businesses, are organisations practicing social responsibility, yet in terms of assets and profit distribution their responsibility is to their Directors. The bona fide Social Business Types of Social Enterprise have asset lock, limit profit distribution and are primarily for social good. Company forms of social enterprise can also be additionally incorporated as Community Interest Companies, which protects asset lock and profit distribution in Law.

In response to the disparate conceptualisations that have tried to develop theories of social enterprise, I offer a new theoretical model that identifies social enterprise in the UK through legal incorporation as opposed to sectors or the blending of one organisational form with another. The Trading Charitable Type, Solidarity Type and Social Business Type social enterprise forms clearly builds on previous research, whilst recognising the general principles of trading for social purpose within a financially sustainable business model.

In sum, Social enterprises are hybrid enterprises that are influenced in composition from their historical/preferential constitutional roots. So by considering the historical antecedents (1990s - 2010) and the three legal constitutions of social enterprise (Company, Charity and Society Law) this theoretical framework puts forward a convincing case for the different organisational identities of those that can be regarded as social enterprises. In looking at the differences between those that are constituted by Company, Charity and Society Law, I highlight that they are very different organisational forms with characteristics that cannot be reduced to two characteristics; ‘trading’ and ‘social purpose’, as their individual business models identify them more aptly than a single definition of social enterprise can.

**Conclusion**

This paper reviews the literature, comparing and contrasting models and concepts. The focus is on visual representations that articulate and support the positioning of social enterprise. This is followed by my own model that seeks to overcome the disparity and shortcomings of concepts to date. 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 inclusive model of social enterprise. Shape sorters do not allow people to put square blocks in round holes, triangular in hexagonal. None of the shapes are the same and none of the holes are the same, so you cannot put everything through the same hole. The analogy is similar to social enterprise as there are different types of organisations. They are not all the same shape. Therefore, the contribution to knowledge here is in identifying and acknowledging the different forms of social enterprise. This paper provides a conceptualisation that embraces the multifaceted nature of social enterprise, which has previously and predominantly been a search for one size fits all.

The implications for academics is in new ways of grappling with the concept that provides teaching material as well as scholarly research. For policy makers in re-evaluating their engagement in the sector and for practitioners in positioning themselves, whilst appreciating the various organisational types that can be conceived as social enterprises.

The value of this paper lies the conceptualisation of social enterprise in the UK. This is a new contribution to knowledge that strengthens the understanding of the field. The model provides the
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