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Defining Social Enterprise

Learning objectives

In this chapter we debate the concept of social enterprise, drawing on different perspectives from those historical roots discussed in Chapter 1, as well as some emerging aspects that have led to a number of different views on definition. We also explore some of the critiques and tensions that exist in defining social enterprise from a number of continents and sources. By the end of this chapter you will be able to:

- explain the practical relevance of debates about social enterprise definition
- explain early social enterprise history
- compare examples of social enterprise based on different approaches to value creation
- clarify the potential of social enterprise in different enterprise development contexts.

The key arguments that will be developed in this chapter are:

- There are different ways of understanding social enterprise.
- Social enterprise can be defined in terms of:
 - double/triple bottom lines
 - developing social and economic capital through community action
 - hybridisation of systems of exchange to increase well-being
 - solidarity between producers, consumers and supporters.
- Social enterprise is developing concurrently in different sectoral and country contexts.

and enterprise activity. The idea of a spectrum (polar positions, shades of transition or blending between concepts) is limited by the way it obscures not only public sector involvement in social enterprise creation but also the concept of sustainable development. Hence a spectrum model does not allow us to conceptualise enough factors to position social enterprise appropriately.

To address this, we turn to cross-sector models which offer more factors in conceptualising social enterprise. In considering cross-sector models we can frame social enterprises as capacity building organisations which partner (or integrate) state, private or voluntary sector partners to benefit society. In this case, theory emphasises the ability to build social capital and bridge ideological differences between the operational models of public, private and third sector organisations. However, we also critique this ‘three-sector’ model on the basis that it confuses *transitioning* activities (the adoption of social enterprise narratives and practices by public, private and voluntary sector organisations to meet their needs) with *emergent* activities that transform mutual and co-operative principles into more local, integrated, sustainable models of production and consumption (Westall, 2001; Connelly, 2007; Ehnert et al., 2013; Baudhardt, 2014).

Lastly, we briefly discuss the view that social enterprise is an activity rather than an organisation. In this guise, social enterprise is the term given to the trading activities (social entrepreneurship) of charity and voluntary sector organisations. The chapter closes by contextualising these different perspectives offering a number of lenses to explore this field of study.

The origins of the language of social enterprise

The terms *social enterprise* and *social entrepreneurship* have various historical points of reference. Banks (1972) applied the term ‘social entrepreneur’ to Robert Owen, widely credited as the philanthropist who pioneered co-operative communities in the 1820s. In the US, Etzioni (1973) described the space for social entrepreneurship as a ‘third alternative’ between state and marketplace with the power to reform society. Etzioni focuses on the US and Soviet economies, suggesting a movement in public and private management towards a third system that blends both state and private

management concepts. He describes a reduced state economy and the rise of alternative business models working in sectors servicing what he calls '*domestic missions*'. These are not as attractive to the private entrepreneur, as the profit motive is not as great as in the market (Etzioni, 1973: 315). Therefore, he argues that an alternative business model draws more on entrepreneurship than a public sector ethos.

We found the term 'social enterprise' first used in Dholakia and Dholakia (1975) to distinguish marketing activities in state and co-operative enterprises from private sector approaches. Westall (2001) claims that another influence was the community business movement who established a magazine called *New Sector* in 1979 to advance social democracy as the preferred alternative to the neo-liberal doctrine adopted by Margaret Thatcher (in the UK) and Ronald Reagan (in the USA).

The two terms gained salience in the UK via different international routes. *Social entrepreneurship* was popularised at **Ashoka** in the USA by Bill Drayton. Throughout the 1980s and 1990s it became associated with international development and fair trade (Grenier, 2006) before appearing, in a 1995 article published by *The Independent*, to describe individuals who founded the UK social entrepreneurial movement (Mawson, 2008). Although Harvard University in the USA used the term 'social enterprise' for its Social Enterprise Initiative after 1993, its approach followed the philanthropic model of commerce rather than the democratic orientation of co-operatives and non-profit associations highlighted in the EMES study (Defourny, 2001). In 1997 the School for Social Entrepreneurs was established, followed quickly by the Community Action Network in 1998 and UnLtd in 2000. UK scholarship received a boost in 2004 when the Skoll Foundation invested in the Skoll Centre for Social Entrepreneurship at Oxford University.

The terms *social enterprise* and *social business*, on the other hand, started outside the US in three distinct places. Firstly, in the UK, the term social enterprise was used from 1978 onwards at Beechwood College (Leeds, Yorkshire) to describe worker co-operatives that were learning social auditing (Ridley-Duff and Southcombe, 2012). Spreckley (1981) published a definition of social enterprise in *Social Audit: A Management Tool for Co-operative Working* and worked to build education programmes with Jim Brown (1981 to 1984). At around the same time in 1979, co-operative movement activists in the Bologna region of Italy persuaded their local authority to support 'social co-operatives' (Restakis,

2010). Such was their success that national legislation was passed in 1991 and they came to be regarded as social enterprises (Savio and Righetti, 1993). According to Spear (2008) this influenced the formation of the EMES International Research Network – the group that partnered **CECOP** (a European federation of ‘worker co-operatives, and social and participative enterprises’) to produce one of the earliest volumes of scholarly works on social enterprise (Borzaga and Defourny, 2001). Thirdly, between 1976 and 1979, Muhammad Yunus piloted a mutual micro-finance organisation to fund small-scale production in Bangladesh. The initial project was incubated at Jobra then extended to the Tangail district, before becoming an independent bank in 1983 (Grameen Research Inc., 2012). Yunus (2007) defined two types of *social business* and went on to earn a Nobel Prize jointly with the Grameen Foundation.

Within the UK, the term ‘social enterprise’ initially gained its strongest foothold within the co-operative movement and community regeneration sector (Teasdale, 2012; Ridley-Duff and Southcombe, 2012). By late 1997, a coalition of co-operatives and co-operative development agencies had formed Social Enterprise London (see Case 2.1). As regional links developed, a national body – the **Social Enterprise Coalition (SEC)** – was created to lobby for co-operatives, social firms, trading charities, community and employee-owned enterprises. Academically, the earliest UK research study embracing social enterprise is Amin et al. (1999). They studied regeneration, neighbourhood renewal and the rebuilding of marginalised communities through government initiatives such as the Phoenix Fund and National Strategy for Neighbourhood Renewal.

Case 2.1 Social Enterprise London: a founder’s story

In 1997, discussions started among London co-operatives and their development agencies (CDAs) on creating a new London-wide support agency. We had several discussions in general meetings at Computercraft Ltd, then Phil Cole and I attended the meetings that established the new agency in early 1998. All but one of the founding subscribers had direct links to the co-operative movement. My recollection was that we discussed this as a rebranding exercise. It was by no means clear that we would

use the term ‘social enterprise’ and we discussed various alternatives. I recollect Malcolm Corbett (from the worker co-operative Poptel) acting as chair. He was aware of developments in Europe through his discussions with Pauline Green, an MEP involved in international co-operative development. Malcolm had sway, so we were persuaded. In 2002, the Social Enterprise Coalition was formed by Helen Barber (of Co-operatives UK) and John Goodman (a consultant with links to Employee Ownership Solutions Ltd). The registered office was the Co-operative Union in Manchester. Jonathan Bland, CEO at Social Enterprise London, moved to the Social Enterprise Coalition, but not before establishing a degree programme at the University of East London, and securing funding for an academic journal.

Source: based on correspondence with Rory Ridley-Duff.

At the end of the 1990s, the Social Exclusion Unit was formed by Tony Blair’s **New Labour** government. This body produced a strategy for ‘neighbourhood renewal’ in which ‘social enterprise’ was used to describe community businesses and trading charities oriented towards the needs of socially excluded groups (Westall, 2001). As time passed, and particularly after a UK government consultation involving charities and voluntary groups, the co-operative origins of the social enterprise movement in the UK became obscured by a strengthening (US-dominated) discourse on ‘earned income’ and ‘innovation’ in charities and public services (Ridley-Duff and Southcombe, 2012; Teasdale, 2012).

In summary, the origins of the language, and the meanings assigned by its advocates, are influenced by experiences in different parts of the third sector as well as public and private sector initiatives to develop approaches to social enterprise. One way of drawing boundaries around the definitional debate is to outline the foci of EU and US traditions. While cautioning against stereotypes, Table 2.1 summarises the dominant narratives at the boundaries of the definitional debate and links them to concepts developed by Ridley-Duff and Southcombe (2012) that distinguish ‘socialised enterprises’ and ‘social purpose enterprises’.

Table 2.1 Framing the boundaries of the social enterprise debate

EU-style social enterprise 'socialised enterprise'	US-style social entrepreneurship 'social purpose enterprise'
○ Collective action	○ Individual action
○ Labour movement or government responses to social issues	○ Entrepreneurial (market) responses to social issues
○ Incremental building of social capital and assets	○ Fast effective achievement of social outcomes
○ Solidarity and mutuality	○ Champions and change agents
○ Accommodation of stakeholders	○ Adherence to a 'vision'
○ Democracy (bottom-up governance)	○ Philanthropy (top-down governance)
○ Social economy	○ Any sector

US-style 'social purpose enterprises' have strong links with philanthropy, whereby money raised from wealthy individuals (and increasingly market institutions and corporations) or government-backed finance supports non-profit organisations that act in the *public interest* (Dees, 1998). Its individual and philanthropic character is evident in definitional work at Stanford Institute:

The social entrepreneur's value proposition targets an underserved, neglected, or highly disadvantaged population that lacks the financial means or political clout to achieve the transformative benefit on its own. (Martin and Osberg, 2007: 35)

The emphasis is on solutions *brought to* the poor by an individual or enterprise designed to fulfil a *social purpose*. There is a departure from philanthropy, however, in attempts to design systems that enable philanthropists to recycle their social investments again and again. This requires **social investment** institutions that enable investors to recover any loans/equity invested, and which can provide metrics to decide which proposals will create the most social impact.

EU-style 'socialised enterprises' draw more on traditions of collective voluntary action, self-help and co-operative principles derived from secular and Christian socialist traditions (Amin et al., 2002). The EU model emphasises solidarity between stakeholders and governance systems that enable workforce members and service users to participate in decisions about the design and delivery of goods and services (Moreau and Mertens, 2013). This 'socialised enterprise' approach is linked more directly

to the long-term goal of building a social solidarity economy and departs in significant ways from arguments for US-style entrepreneurial action (Lund, 2011).

Westall captures the two dominant approaches when she comments:

This history of ‘third sector’ organisations ... is in some ways the history of two alternative strands – that of self-help (mutuals and cooperatives) and of charities where the paradigm, at least historically, is more related to helping others unable to help themselves. (Westall, 2001: 24)

This dual history persists but we will argue that a simple dualism is no longer adequate. Westall proceeds to argue that social entrepreneurs seek to ‘break free of historical baggage’ so a distinction based on third sector traditions is ‘no longer tenable’. However, we think there is something that historically grounds social enterprises and that along with geographical contexts and politics we can define core types. Having set out where boundaries have been drawn, we now explore different definitions of social enterprise. We start with descriptions that have attracted attention in policy debates to make explicit how they seek to reconcile ‘social purpose’ and ‘socialised’ approaches to organising.

Descriptions of social enterprise

The four examples in this section have been selected to illustrate different perspectives. In all cases, social enterprises are seen as socially driven organisations with social and/or environmental objectives combined with a strategy for economic sustainability. By comparing the four definitions, different emphases become apparent. We discuss definitions that have appeared in key publications:

The Social Audit Toolkit – for worker and community co-operatives (Freer Spreckley)

The Emergence of Social Enterprise (Borzaga and Defourny, EMES European Research Network), updated before work began on the International Comparative Social Enterprise Models (ICSEM) project

A Social Enterprise Typology (Kim Alter, for the Inter-American Bank)

Creating a World Without Poverty (Muhammad Yunus, at the Grameen Foundation)

Definition 1: Spreckley, 1981

The first definition appears in the 1981 edition of Spreckley's *Social Audit Toolkit*. It is interesting for its adoption of language familiar to both the co-operative movement and the field of sustainable development (Definition 1), a reflection of Spreckley's own participation in the development of fair trade networks. Spreckley's definition embraces a triple bottom line (personal, environmental and social benefits). These are organised through a worker or community co-operative that subverts the dominant power relationship between capital and labour. The practical issue here is whether the representatives of capital (investors and funders) or those working and benefiting from the enterprise (labour and beneficiaries) have the final say in running the organisation and deciding what to do with financial surpluses and losses. This arrangement is unproblematic if individual members have committed their own money. Issues arise as soon as members go outside the organisation to raise money. In Spreckley's definition, there is a preference that capital, rather than labour, is paid a fixed return. This is, theoretically speaking, the reverse of the employer paying fixed wages to employees then acquiring all residual profits. Instead, capital is hired at a fixed rate of interest (or fixed dividend) and any residual profits go to the workforce or community.

Social enterprise as a co-operative (published 1981)

An enterprise that is owned by those who work in it and/or reside in a given locality, is governed by registered social as well as commercial aims and objectives and run cooperatively may be termed a social enterprise. Traditionally, 'capital hires labour' with the overriding emphasis on making a 'profit' over and above any benefit either to the business

itself or the workforce. Contrasted to this is the social enterprise where ‘labour hires capital’ with the emphasis on personal, environmental and social benefit. (Spreckley, 1981: 8)

This definition gives no recognition to social enterprises that are registered as charities and follow the trustee–beneficiary model, but it does embrace membership associations that use a mix of paid and unpaid labour to pursue social goals. The definition also takes ‘community’ to mean people in a local area as opposed to a community of interest. While a local focus can be a characteristic of social enterprise, social enterprise does not have to be locally based or small in scale. Lastly, Spreckley’s definition gives no recognition to partnerships and multi-stakeholder enterprises involving state and private organisations.

Definition 2: EMES, 1996-2011

In 1996, a study by the EMES European Research Network set out a series of social and economic characteristics used to select organisations for a pan-European study of social enterprise. In 2011, the president of EMES reorganised the definition from ‘economic and social’ to ‘economic, social and governance’ whilst publishing his work in China (Hulgård, 2011). This provides a richer framework for interpreting social enterprise *models* without changing the actual elements (Definition 2). The EMES definition has some of the hallmarks of Spreckley’s definition, but is less prescriptive about employee ownership and control. Autonomy and entrepreneurial risk-taking, combined with social and economic participation, are hallmarks of the EMES definition, but the door is left open for different stakeholders (users, customers, funders, suppliers and employees) to participate in the enterprise. Compared to Definitions 3 and 4, more emphasis is placed on democratic control over production and delivery of goods and services, and the arrangements for participation in governance. There is no intrinsic assumption that the organisations be ‘businesses’ or that they should adopt ‘business practices’. As a definition, the EMES project researchers and participants found that it was useful, but also that it represented an *ideal*. In practice, organisations fulfilled some of these criteria, but rarely all.

EMES (first published 2001, updated 2011)

Three social criteria

An explicit aim to benefit the community.

An initiative launched by a group of citizens.

Decision-making power not based on capital ownership.

Three governance criteria

A participatory nature, which involves the persons affected by the activity.

A high degree of autonomy.

Limited profit distribution.

Three economic criteria

A continuous activity producing goods and/or selling services (i.e. the organisation seeks to provide what it does infinitely, so it's not a short term project).

A significant level of economic risk.

A minimum amount of paid work (i.e. at least some labour is compensated).

Sources: Defourny, 2001: 16–18; Hulgård, 2011: 208

While the EMES definition remains influential in Europe (where it was adopted for a period by the EU Commission in 2011–12) and Asia (where it was translated to support local development work), it did not influence the UK government's consultation (DTI, 2002) on **community interest companies (CICs)**. This consultation marked a departure in the UK from the co-operative/social economy traditions that Spreckley had used as the basis for social enterprise education in the UK, and marked a shift that gave social *entrepreneurs* much greater freedom to determine organisation structures and reduce levels of participation in governance. The report setting out the intentions of the UK government (DTI, 2003) established government (rather than the enterprise's own stakeholders) as the authority

with the strongest rights of intervention. The claimed ‘looser’ approach to definition drew a great many people and organisations into the debate. Social entrepreneurs, even those operating on a self-employed basis, could – and still can – gain credibility for their social ventures (DCMS and DBEIS, 2017). Similarly, trading charities and voluntary organisations (whether formally democratic or not in their decision-making and appointment processes) as well as a broad range of co-operatives (whether commonly owned or owned by their staff) could be accommodated in a national strategy. After this broadening of the definitional debate, it is unsurprising that Peattie and Morley (2008) had difficulty establishing social enterprise’s distinguishing characteristics, and eventually had to settle for a theory based on *trading organisations* that prioritise *social aims*.

With hindsight, it is easier to see this as a discursive shift away from ‘socialised enterprises’ in favour of ‘social purpose enterprises’ (Figure 2.1).

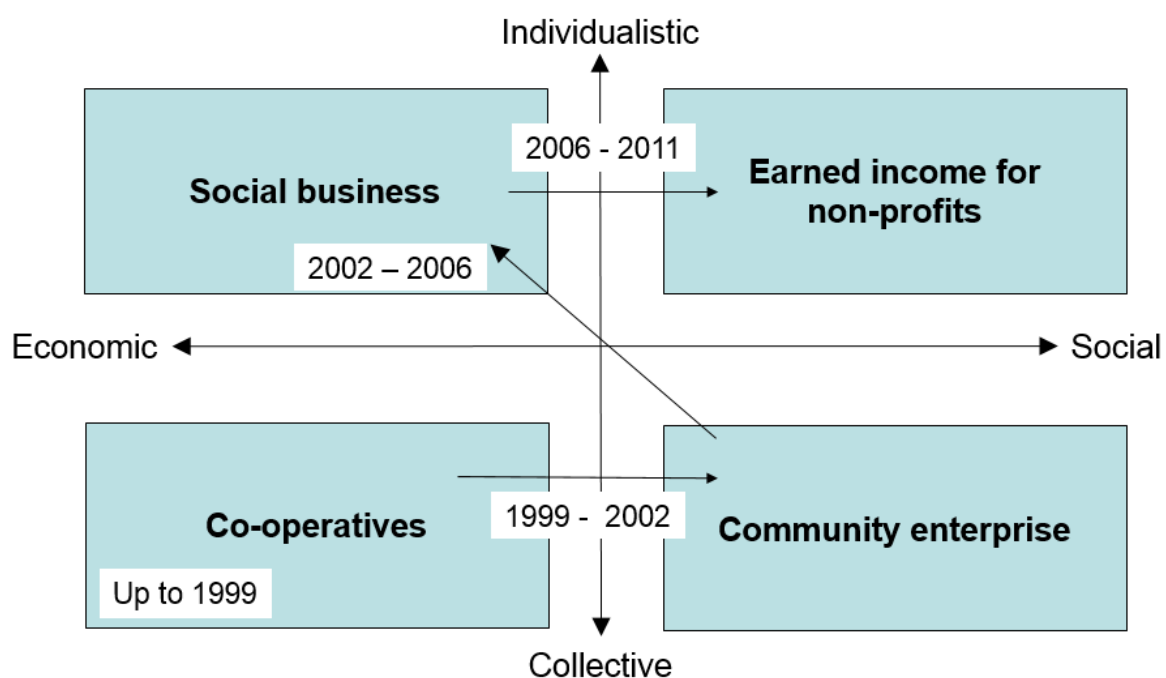


Figure 2.1 An interpretation of Teasdale’s (2012) ‘What’s in a name? Making sense of social enterprise discourse’

Teasdale (2012) tracks changes in social enterprise discourse over the period 1999 to 2011, and frames the period 2002–2006 as one in which there was a transition away from a co-operative and community enterprise heritage towards one based on social business and earned income for non-profits. This change can be explained by the growing influence of US-led social entrepreneurship. A good example of this US influence is Greg Dees's (1998) highly cited 'social enterprise spectrum' model, which as Peattie and Morley (2008) suggested, had influenced a decade of social enterprise thinking. This social enterprise model is a blend of 'philanthropic' (social) and 'commercial' (enterprise) motives.

This discourse is furthered by Birch and Whittam (2008). They suggest that social enterprise involves a social objective (which they concede is definitionally complicated in itself but is connected to what 'activities' organisations are involved in). They recognise the emphasis in UK policy on a 'non-profit' organisational form which they acknowledge excludes co-operatives, stating that their social objective is collective ownership, a different activity and organisational form to social enterprises. Birch and Whittam recognise the pursuit of particular activities (i.e. social purpose trading) with the aim of producing collective benefits (which they take to mean public benefit). They further argue for a focus on financial sustainability and between 25–50 per cent of their income derived from social purpose trading activities and therefore working towards, or operating financial self-sufficiency.

This 'non-profit' with trading activity thinking is furthered by those that argue social enterprise is an 'activity' of charities and community/voluntary organisations. In MacDonald and Howorth's (2015) paper they discussed the adoption of social enterprise by charities as a concern for mission drift. Social enterprise is couched as a financial activity (i.e. trading goods and services as opposed to other financial mechanisms) that funds a charity's or community/voluntary organisation's work. Mission drift refers to the tensions where the trading of products or services may not necessarily align with the social purpose of charity, community and voluntary organisations. Therefore, an organisation's capabilities in delivering their mission is potentially reduced by efforts to trade and generate income, which gives rise to many in the charity, community/voluntary sector resisting the term social enterprise, as in their eyes it refers to the activity of trading, which can be to the detriment of achieving their organisation's mission. The switch to 'activities' is useful for the purposes of public administration: social enterprises

can be started to meet public policy goals or charitable objectives (and shut down if they do not). It also supports charities, community/voluntary organisations who wish to set up trading arms related to their core charitable purposes. A possible incentive for framing social enterprise *as an activity* is that it suits those who want to use social enterprise for ‘project management’. Essentially trading arms can fulfil several purposes: firstly, to act as income generators; secondly, to pursue social objects that are outside their primary purpose. In both cases, the flexibility to trade as a separate entity allows the circumvention of the laws refraining registered charities from over-trading. In such instances the trading arm can gift any trading surplus back to the parent organisation, thus changing the status of the income (from earned income to a donation).

Viewing social enterprises in this *instrumental* way (that social enterprise trading entities can be set up to achieve the parent organisation’s public, charitable and CSR objectives) is often accompanied by an *anti*-democratic approach to ownership and control in order to maximise control over the subsidiary and prevent it becoming autonomous. If subsidiary social enterprises are constituted as democratic enterprises, their ‘parent’ organisations will not be able to dissolve them. To be controllable, ‘parent’ social enterprises resist using democratically constituted entities that can make decisions autonomously. This brings back into focus how the ‘social’ is theorised in definitions of social enterprise.

Definition 3: Alter, 2007

The view of social enterprise as a policy instrument under the control of visionary social entrepreneurs gained momentum as a policy option for governments (Somers, 2013). Alter (2007) reviewed a wide range of definitions in the preparation of her *Social Enterprise Typology*. While her definition (Definition 3) is not necessarily representative of all US thinking (see www.socialenterprise.us), it does reflect aspects of strengthening US influence. It considers the more business-like rhetoric adopted for the US non-profit sector through direct reference to the private sector’s ‘discipline, innovation and determination’.

Virtue Ventures (first published 2003)

A social enterprise is any business venture created for a social purpose – mitigating/reducing a social problem or a market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business. (Alter, 2007: 18)

In common with the **DTI**'s definition in the UK, there is no reference to ownership or democratic control as defining characteristics. As a result, there is scope for the inclusion of US-style entrepreneurial solutions as well as the preference for collective solutions in the EMES approach. One aspect of this definition, absent from all others, is the *direct* focus on solving or mitigating a social problem or a market failure (although this is often taken to be implicit). Alter's definition serves well for ventures like Toms Shoes, a US for-profit social enterprise that was set up by Blake Mycoskie to sell shoes across the developed world to fund shoes for children in the developing world, largely driven by seeing them expelled from school as many had no shoes. This started in Latin America and now serves communities across the world. To find out more watch: <http://vimeo.com/2567675>.

Alter's model could also describe entrepreneurial 'non-profits' in the USA and elsewhere that run hospitals, schools, colleges, universities and social services. For example, in developing economies (where the state is weak) this definition serves to cover those organisations that act as a proxy for the state by providing services that would attract public funding in the EU. Nevertheless, Alter's definition gives less explicit recognition to employee-owned businesses and co-operatives whose social goal is the creation of a social solidarity economy through shared ownership of supply chains to distribute wealth and power more fairly. Instead, her definition highlights rapid responses to social exclusion that is attuned to the rhetoric of 'market solutions' rather than 'mutual relations'.

However, there is something else interesting about Alter's definition. It is the only one that explicitly mentions *innovation*. As Perrini argues:

Social enterprise entails innovations designed to explicitly improve societal well-being, housed within entrepreneurial organizations, which initiate, guide or combine change in society. (2006: 24)

The focus on innovation is strongest in the US literature where the value propositions of social entrepreneurs are taken as the drivers of social change (Light, 2008; Friedman and Desivilya, 2010; Ayob et al., 2016). This focus on innovation – particularly in the use of private sector financial instruments within organisations that deploy philanthropic or co-operative characteristics – is also a feature of writings on *social business* (Yunus, 2007).

Definition 4: Yunus, 2007

Yunus sets out two ‘types’ that have the same goal – the elimination of poverty – but do so using different constitutional arrangements. In a tangible sense, Yunus’s first type adopts the characteristics of a ‘social purpose business’ in which there are locks on both assets and profits. While this follows *some* of the norms of charitable/non-profit enterprises, Yunus argues vigorously for equity instruments and arrangements that enable investors to recover their investment. To this end, he sees a need for a social investment industry to make capital available and establish the metrics that social investors need to make judgements about which investments produce the greatest social returns (Nicholls, 2010).

Two types of social business (published 2007)

[The first type] of social business has owners who are entitled to recoup their investments ... owned by one or more individuals, either as a sole proprietorship or a partnership, or by one or more investors who pool their money ... [or] by government or a charity ... any profit it earns does not go to those who invest in it. Thus [the first type of] social business might be defined as a non-loss, non-dividend business ... the surplus generated is reinvested in the business.

[The second type] operates in a rather different fashion: profit-maximising businesses that are owned by the poor or disadvantaged [where] the social benefit is derived from the fact that the dividends and equity growth [will] reduce their poverty or even escape it altogether. With the second type ... goods or services might or might not create a social benefit. The social benefit created ... comes from its ownership. Because the ownership of shares [belongs to] the disadvantaged ... any financial benefit generated ... will go to help those in need. (Yunus, 2007: 26)

Yunus discussed the example of the Rochdale Pioneers in relation to the 'second type' of social business. This clearly adopts the characteristics of 'socialised enterprise' by adopting member ownership and mutuality as an organising principle. But while drawn to co-operative principles, Yunus argues that membership should be contingent on a low income so that private sector investment instruments gradually lift people on low incomes out of poverty. Yunus's two types, therefore, differ in subtle ways from both Definition 1 and 3 (by retaining an option for capital to hire labour within an enterprise that operates for a social purpose) and from Definition 2 by countenancing a profit-maximising co-operative model that lifts low income groups out of poverty.

To explore this further with the goal of producing something more fine grained in its analysis than 'trading for a social purpose' (Peattie and Morley, 2008), we crafted a composite list of characteristics from five 'theories in use' and sent it to 550 social enterprise lecturers, researchers and post-graduate students for the second edition of this book. We provided them with working definitions of 'socialisation' and 'social purpose' based on previous work (Ridley-Duff and Southcombe, 2012) and asked for them to be ranked for their contribution to each. If a characteristic contributed to both, we suggested placing it between those that supported 'socialisation' over 'social purpose' (or vice versa).

We received 136 responses (24.7 per cent) and evaluated the results by awarding a score of +2 or +1 based on the strength of the ranking, or awarded 0 if the ranking indicated a contribution to both. From this, we came to a conclusion that there are three broad approaches to social enterprise, each

linked to different forms of incorporation, each supporting a cluster of social enterprise characteristics (see Table 2.2).

Table 2.2 Distinguishing characteristics of socialised, socially responsible and social purpose enterprises

Socialised Enterprises (CMEs) Legal forms: co-operative, mutual, employee-owned business, other social/solidarity economy legal forms		
<i>Distinguishing Characteristics</i>	<i>Socialisation Score</i>	<i>Social Purpose Score</i>
• Is (co-)owned by one or more of its primary stakeholders (workforce, customers and/or service users)	129	38
• Offers membership to primary stakeholders (workforce, customers, service users)	117	43
• Ensures that most (or all) of its assets are used for member, community and public benefit	139	70
• Governed by one or more of its primary stakeholders (workforce, customers, service users)	121	56
• Continuously encourages co-operative working/networking	112	76
• Allows members to equitably contribute to, and receive distributions of, capital/surpluses	82	53
• Provides technical and political education/training to its members (staff, users and elected representatives)	95	69
Social/Responsible Businesses (SRBs) Social welfare corporations (Asia), social purpose/community enterprises (EU), B-corporations/low-profit corporations (US)		
<i>Distinguishing Characteristics</i>	<i>Socialisation Score</i>	<i>Social Purpose Score</i>
• Is not owned or controlled by a private company or public authority	87	78
• States (and reviews) its ethical values and principles	76	70
• Provides at least some paid employment	60	67
• Provides evidence that it makes a positive social impact and/or runs for community benefit	69	83
• Educates the public about the benefits of its business model	83	106
• Receives most of its income from trading activities, not grants or donations	71	95
Social Purpose Enterprise (CTAs) Foundations, trading charities, NGOs, non-profit associations/companies		
<i>Distinguishing Characteristics</i>	<i>Socialisation Score</i>	<i>Social Purpose Score</i>
• Continuously produces and/or sells goods and services to improve social/environmental well-being	67	98
• Reinvests most of its surplus/profit back into its social/environmental purpose	71	104
• Makes clear statements about its social and/or environmental purposes/objectives	59	97
• Balances member (stakeholder) needs with sustainable development goals	44	88
• Discourages a 'for-profit' mind-set by limiting the distribution of surpluses/profits for private benefit	52	114
• Based on the actions of citizens voluntarily working together to meet a need	51	115
• Has members/founders who bear a significant level of economic risk during venture/project creation.	56	121
Key: <i>Socialised enterprises = socialisation score at least 25 more than social purpose score</i> <i>Social/responsible businesses = socialisation score within 25 points of social purpose score</i> <i>Social purpose enterprises = social purpose score at least 25 points more than socialisation score</i>		

Class exercise: Social enterprise definition

Do you want to input into the next edition of this book? The links to a Social Enterprise Definition survey below (in partnership with the FairShares Association and Social Enterprise International Ltd) are based on the same statements as our previous survey. For the next edition, we are asking respondents to rank characteristics for each type of enterprise in *order of importance*.

The survey is accessed at www.fairshares.coop/social-enterprise-survey/. Ask students to fill this out before, or during, a class – their responses will be emailed to the address they give on the form. Ask them to print and bring their responses to class for further discussion.

In small groups, answer the following:

1. Which characteristics have been ranked as the most important?
2. Which characteristics have generated the highest level of consensus?
3. Which set of characteristics were more popular, and what justifications were given for this?

These results lead us to question the ‘lowest common denominator’ approach to social enterprise definition (Peattie and Morley, 2008; Doherty et al., 2014) in favour of approaches that deepen our understanding of the cluster of characteristics that define each approach.

In summary, we believe it is fruitful to distinguish (and judge) social enterprises based on the scope and depth of their achievements in at least one of three areas: a) *democratic ownership and governance*; b) *ethical and sustainable trading practices*; c) *social purpose and impact*. All achievements are worthy of recognition as contributions to social value creation, even if confined to just one of these areas. However, it is achievements across all three domains that are likely to galvanise the most interest and which activists are most likely to want to replicate.

In the rest of this text, we will mostly frame our discussion in terms of the interactions between three broad approaches to social enterprise that we identify (since the first edition of the book these three types have been adopted by Social Enterprise International Ltd (Ridley-Duff and Southcombe,

2014)). Figure 2.2 shows the three types of organisations (CMEs, CTAs and SRBs) that collectively create social value by trading goods and services (discussed in Chapter 1), that are socially and economically sustainable (discussed in Chapter 5) and which create and develop social and ethical capital (discussed in Chapter 7).

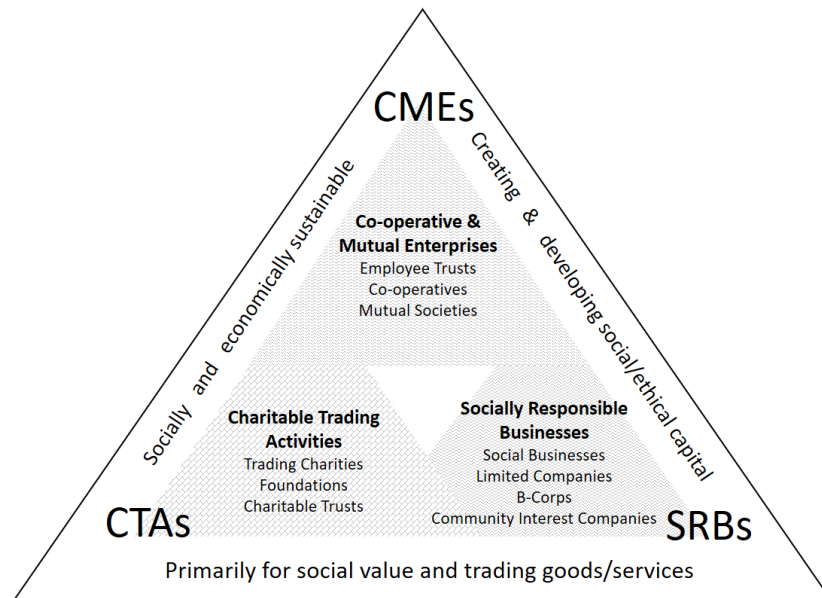


Figure 2.2 Types of social enterprise
Source: Adapted from Bull (2018)

1. *Co-operative and mutual enterprises* (CMEs) which are defined by their commitment to (or innovative systems for advancing) democratic/inclusive ownership and governance, constituted in society law. Some examples: John Lewis (UK), FC United of Manchester (UK), Fonterra Dairy Co-op (New Zealand), Barcelona FC (Spain), Desjardin Group (Canada), Co-op Kobe (Japan), WinCo (USA), Sunderland Care Home Associates (UK).
2. *Socially responsible businesses* (SRBs) which are defined by their commitment to (or innovative technologies for) ethical trading and sustainable development, constituted in company law. Some examples: Ben and Jerry's (USA), Toms Shoes (USA), Grameen Bank (Bangladesh), Agua (Kenya), SEMCO (Argentina), Entrepreneurses (UK), Merck (USA).
3. *Charitable trading activities* (CTAs) which are defined by their commitment to specified social purposes that positively impact on human or environmental well-being, constituted in charity

law. Some examples: Oxfam (International), The Big Issue (UK), UNICEF (International), Barnardo's (UK, Ireland, Australia, New Zealand), World Wild Life Fund (International), Eden Project (UK), Wooden Canal Boat Society (UK), Furniture Resource Centre Group (UK), Ealing Community Transport.

Beyond these three broad types, we will occasionally discuss a fourth type – Public Sector/Service Social Enterprises (PSSEs) – based on a critique of work undertaken by members of the EMES Research Network (see Defourny and Nyssens, 2017). However, as we discuss further in the book, any PSSE operates with commitments to one of the three types we frame above.

Class exercise: Defining social enterprise

Materials to support this exercise can be found on the companion website at <https://study.sagepub.com/ridley-duff3e>. Divide the class into groups of four and give one social enterprise definition to each person in each group. Members should not show their definitions to other group members.

Scenario

You are attending a directors' development meeting to define your approach to social enterprise. Next week, you will brief the meeting on the potential of social enterprise for a business idea you want to launch. A consultant has researched four definitions but has not been invited to the meeting. Following the consultant's advice, each director has been given one definition to present at this meeting.

- In groups (no more than four people per group):
Take 5–10 minutes to read the definition and prepare for a 30 minute meeting.

Each group member has up to 5 minutes to read their definition and outline a critique.

After hearing all four definitions, discuss the advantages and disadvantages of each before agreeing *your own* definition (10 minutes).

- ask each group to read out/write on a whiteboard its final definition.

As a class, critically debate issues that may arise if you propose each social enterprise approach to:

- a panel of venture philanthropists (investing in charities and non-profit organisations)
- a panel of social business angels (e.g. similar to *Dragons' Den*) wishing to make ethical investments.
- a public meeting convened to discuss a share issue that will raise money to buy a building for local health and leisure services.

Suggestion: you might adapt this exercise by using definitions from local social enterprise support agencies, or national or international bodies that support local development in your area.

Approaches to researching social enterprise

Each of the four definitions we have discussed draw out a different aspect of what it is to be 'social' and also to be an 'enterprise'. As Bull (2006) found, social enterprises position themselves at all points along a continuum (see Figure 2.3). They adopt a variety of arguments to justify their emphasis, and they show varying levels of conviction to particular positions (the larger crosses and the smiley faces indicate greater conviction regarding their position on the spectrum). Bull interpreted that the smaller crosses indicated a sense of embarrassment regarding their position, or as an apology they were not as enterprising as they were encouraged to be, or as a reluctance to admit to a position that compromises their values.

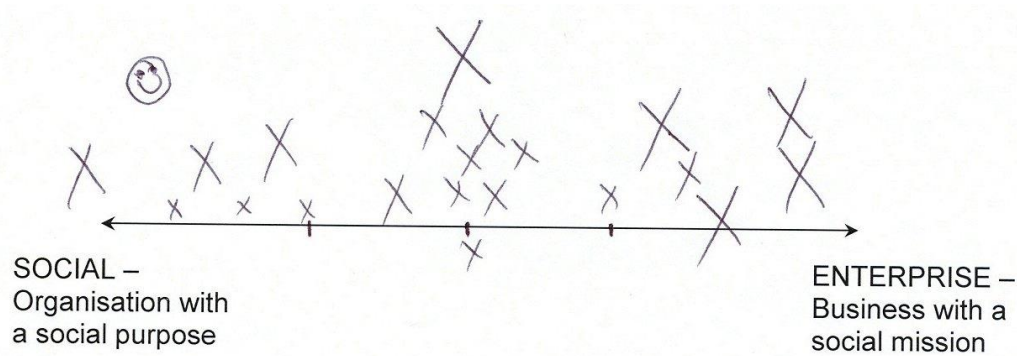


Figure 2.3 Participants positioning themselves on a continuum

‘Social purpose’ can be *external* (in terms of the products and services offered) or *internal* (transforming social relationships to distribute power and wealth more equitably). ‘Economic purpose’ is similarly complex, spanning debates about competitiveness in markets, **social inclusion**, individual empowerment and modernisation of the state (Westall, 2001). In Bull’s research, many of the organisations interviewed stated they were moving towards earned income strategies not simply to become more self-sustainable, but to raise economic capital which could then be used to meet the goals of the organisation where other financial options were diminishing. Needless to say, the majority of opinions in this research were from charity, community and voluntary organisations adopting social enterprise as an activity for subsidising their income (CTAs).

In the rest of this chapter, we examine three perspectives that researchers adopt when they investigate the contexts and practices of social enterprises. Firstly, we consider social enterprise as a spectrum of options; then, we examine the argument that social enterprise involves complex choices about how to combine systems of exchange to maximise social value creation; and, lastly, we further explore Westall’s view that there is a ‘fourth space’ in which social entrepreneurs seek to transcend the limitations of ‘old’ philanthropy and mutuality by forging solidarity enterprises with multiple owners and/or multi-stakeholder governance.

Social enterprise as a spectrum of options

Social enterprises are often described as *double bottom line* organisations that practise both altruism and commercial discipline. Nyssens (2006) describes this as a process of *hybridisation* that challenges traditional models of organising and produces a cross-fertilisation of ideas. A model by Dees (1998) has been influential in promoting understanding of social enterprise in the non-profit sectors of the USA and the UK where organisations have experienced falls in charitable giving and government grants. Useful as this theory is for stimulating new conversations in charity, voluntary and community organisations, it does not address changes taking place in co-operative, fair trade and private businesses. For example, organisations like Divine Chocolate, Traidcraft, Ben and Jerry's (US), the Mondragon Co-operative Corporation (Spain) and Co-operative Group (UK) have operated in commercial markets from the outset, and routinely made *triple* bottom line commitments that combine commercial success with the protection of people and the environment.

Kim Alter (2007) built on Dees' model to propose a *sustainability spectrum* that describes six gradations between 'traditional non-profit' and 'traditional for-profit' enterprises. She places social enterprise on the 'social sustainability' side, more aligned with traditional non-profit than for-profit enterprises. But given alternative heritages of social enterprise more globally based on co-operation and fair trade (see Chapter 1), we think it is more useful to adapt Alter's model (see Figure 2.4).

Nevertheless, the granularity of Alter's model makes explicit some of the tension points between advocates of different models. For example, both academic studies and practitioner accreditation schemes have used a threshold of 50 per cent income from *trading* as a benchmark for distinguishing between charities that use trading to supplement income and enterprises that trade to pursue a social purpose (Birch and Whittam, 2008; Ridley-Duff and Southcombe, 2012; Teasdale et al., 2013; Bull, 2018).

Case 2.2 Furniture Resource Centre Group: charitable trading or responsible business?

Over the first 20 years of developing the Furniture Resource Centre Group, three organisations were created. The Furniture Resource Centre (FRC) was founded in 1988 as a CLG to enable people on low income to buy furniture. They 'design, manufacture, recycle, refurbish, sell and deliver furniture to people in need and so create work for the jobless and offer long-term unemployed people salaried training'. In six years, the FRC switched from being a small local charity (£300,000 turnover with 15 staff) to a company generating £5 million with over 120 employees. Ninety per cent of income is generated through sales of products and services. Grants are only used for particular pieces of work such as building refurbishment. Liam Black, then CEO, stated that 'our financial independence from statutory and charitable trust funding has liberated us. We are masters of our own destiny and we choose where we go and how we do it. Free of funders' handcuffs and the risk averse conservatism of regeneration quangos, we are free to experiment and innovate'.

Liam Black won the 'Social Entrepreneur of the Year' award in 2003. He left FRC in 2004 to manage Fifteen, Jamie Oliver's chain of restaurants. In 2008, after successfully establishing franchises in Holland and Australia, he left to pursue new projects.

This case illustrates the blurred line between CTAs and SRBs.

Source: based on Westall (2001) and subsequent press reports

Smallbone and Lyon (2005) have criticised restrictive definitions. They argue that early stage social enterprises, or charities increasing their trading activities, often have less than 50 per cent trading income. Should this be used to exclude them from being defined as social enterprises in sector surveys? Should they be refused social enterprise support? However, such an argument ignores that *trading* activity alone does not define a social enterprise (as many community and voluntary organisations are trading organisations, yet they fail to exhibit other characteristics linked to social enterprise). Liam Black (see Case 2.2) underlines the *mind-set* that trading is a *means* of achieving autonomy, so that an organisation can choose its own destiny, become more entrepreneurial, and increase its social innovation and impact. This constitutes a counter-argument to Smallbone and Lyon (2005) on the basis that social enterprises use trading relationships to transform (social) power and change patterns of (economic) wealth distribution. If an organisation trades in such a way that it reproduces dependency, or reinforces existing (market) power relations, it surely has a more tenuous claim to being a social enterprise (Meyer, 2013)?

Case 2.3 Sunderland Care Home Associates: socially responsible business or co-operative enterprise?

Sunderland Care Home Associates (SCHA) was formed as a successor to the Little Women co-operative in 1994 and was initially constituted as a CLG (common ownership rules) with a £1 share for each of its 20 members. In 1998, ‘for both tax and philosophical reasons’, the organisation voted to change to an employee-owned model based on a CLS. Initially, just over 50 per cent of shares were held in trust, with the remainder held by the original co-operative. After six share allocations, reflecting business performance and the availability of shares through an internal market, the employee trust held 56.7 per cent of the shares, 16.8 per cent were in employees’ own names, and 26.5 per cent remained in the founding co-operative. By 2007, the organisation had a turnover in excess of £2 million and employed 223 staff, of which 85 per cent were women.

Margaret Elliot, the founder, felt that this arrangement would give employees a real, growing stake rather than just a £1 share and that this would ‘increase their commitment and help to raise staff retention and the quality of the service we provide’. Staff turnover has been reduced to 3.5 per cent, a full 10 per cent below the industry average. The board consists of five elected employees, the founder and a tax/legal expert. General meetings are held bimonthly, and working parties are created to consider specific issues.

SCHA was rated ‘Top Social Enterprise’ at the 2006 Enterprising Solutions Awards and has now established Care and Share Associates (CASA) to oversee the replication of its business model to other regions. Margaret Elliot was awarded an OBE in the 2008 UK New Year Honours List.

Sources: Companies House; Fame company database; case study published by the Employee Ownership Association (www.employeeownership.co.uk); press reports

See the companion website at <https://study.sagepub.com/ridley-duff3e> for alternative North American and South American cases.

Both Alter (2007) and Dees (1998) locate social enterprise as sitting on a spectrum between traditional for-profit and non-profit organisations without explicating their relationship to co-operatives and mutuals. These omissions can be explained in part by Kerlin’s (2006) analysis of the United States and Europe. She notes that the term ‘social enterprise’ means different things stemming from the national context and the influences driving development. She points out that *social economy* has been slow to gain recognition in the US, nor is there a strong public sector tradition in welfare provision and market intervention. The effect is to understate the influence of local and central government in creating an ‘enabling environment’ which influences the direction and nature of social enterprise development (Somers, 2013). Somers argues that people in the public sector can use social entrepreneurship to act as a *modernising agent* (Spectrum 2), giving rise to a spectrum of options based on the role that the state plays in initiating, supporting and withdrawing from the development of industry sectors in a market economy.

By way of example, the state is actively involved in creating an environment in which welfare services can be delivered through quasi-markets in social and health care (Case 2.4). This is a shift away from the *command and control model* of public service delivery towards a *network model* involving a range of public and third sector organisations, including infrastructure bodies stimulating regional development (Osborne, 2006). Ironically, Somers argues that this constitutes an expansion, not a contraction, of the state, and constitutes a route to ‘Third Way’ socialism. Curtis (2008) characterises this as *state-sponsored social enterprise* and cautions that it may undermine the entrepreneurial spirit and know-how needed to ensure the sustainability of the social economy. Is this autonomy from the state? Is this innovation? Nevertheless, both Somers and Curtis recognise that social enterprise cannot be fully theorised without including state and public sector activity. Case 2.4 illustrates how this can concretely affect the mind-set of former public servants.

Case 2.4 Entrepreneurses CIC

Established by David Dawes, a former CEO and commissioner in the NHS, and public servant at the Department of Health, Entrepreneurses uses the new community interest company legislation in the United Kingdom as a vehicle for the ‘right to request’ a social enterprise.

Entrepreneurses is a community interest company which is a type of social enterprise. What that means is we want to change the world and we want to do it in a business-like and entrepreneurial way. Specifically we:

- support the growth and development of entrepreneurs (particularly social entrepreneurs and nurse entrepreneurs)
- develop the art and science of nurse entrepreneurship
- encourage the development of social enterprises in health and social care
- improve the delivery of healthcare.

What we want to do is help make the world a better place by improving some of it ourselves but mainly by helping other people improve their bit of the world themselves.

Source: based on www.entrepreneurses.net/about/about_us.php (accessed 12 September 2018)

Finally, can there be hybridisation at the boundary of the public and private sectors? As Defourny (2001: 23) acknowledges, ‘the NPO [non-profit organisation] literature is not able to embrace the whole reality of social enterprise’. The realisation that some social enterprises are not ideologically hostile to declaring profits or sharing surpluses has prompted high-profile figures to challenge the sector to adopt a ‘more-than-profit’ orientation (Ridley-Duff, 2008). Organisation structures and culture can play a significant role in the re-distribution of power and wealth, and can change stakeholders’ engagement in decision-making (Grey, 2005). Secondly, there is the issue of how profits are used. CMEs have a track record of transforming patterns of ownership, power and wealth. Their products and services may be indistinguishable from those produced by others, and may be sold at market rates. This is, however, to miss the point. Trading is the *means* by which a different social mission is achieved (Gates, 1998; Brown, 2006; Restakis, 2010). As Gates argues, a combination of investor, worker and consumer ownership can alter management practices:

‘Inside’ ownership improves performance both directly (by encouraging insider challenges to poorly conceived management decisions) and indirectly – by influencing managers who know that the firm’s owners are now working amongst them. Similarly, by including a component of consumer ownership, the utility’s managers (and their families) would live among shareholders who are also neighbors, schoolmates and teammates. Such a community-focused ownership stake could change the quality of business relationships. (1998: 13)

Large mainstream businesses, and not just those currently identified as part of the social enterprise sector, can lay some claim to effective stakeholder involvement, commitment to diversity, and practices that address social exclusion (see Case 2.5). How then should we theorise their contribution to social enterprise? Does this further compromise the concept of ‘social enterprise’? Our view is that it does not. Rather, it invites a fuller consideration of a third axis that spans the public and private sector. As we discussed in Case 2.3 (Sunderland Care Home Associates), social enterprises can switch away from (rather than embrace) common ownership to pursue a social purpose and increase their social impact. For this reason, a third axis is needed that theorises how public and private sector support creates further opportunities for social enterprise (see Figure 2.5).

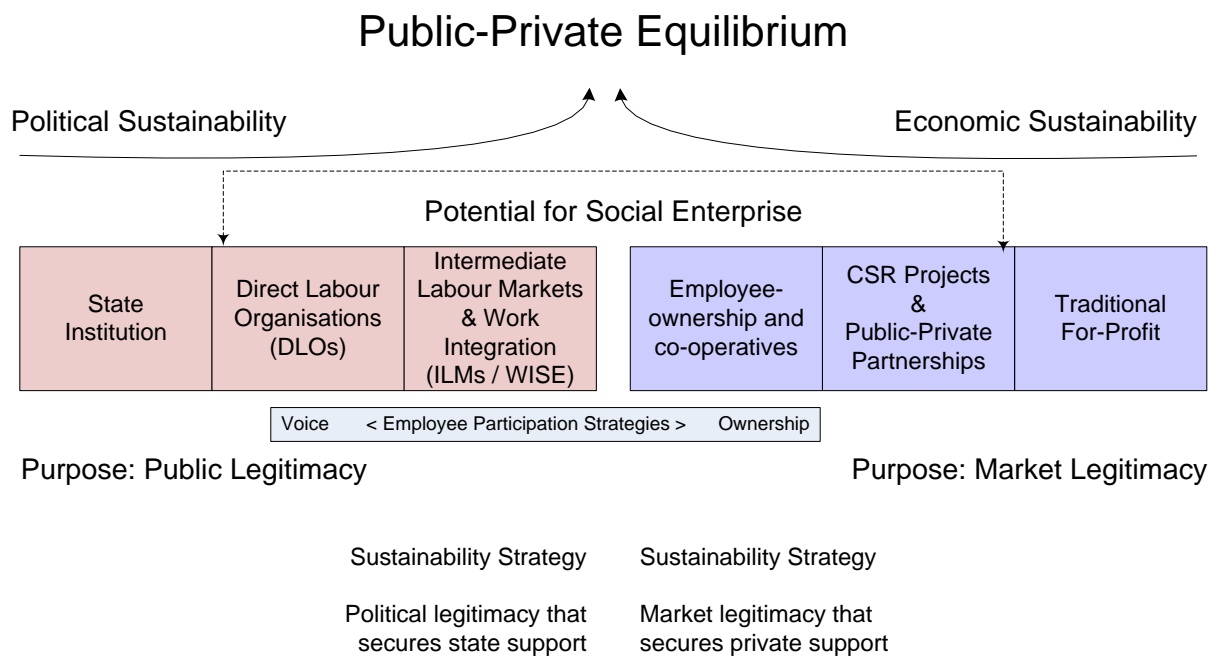


Figure 2.5 Public legitimacy and private support (Spectrum 3)

Case 2.5 Merck: socially responsible business – Merck and the Mectizan drug project

Merck elected to develop and give away Mectizan, a drug to cure ‘river blindness’, a disease that infected over a million people in the Third World with parasitic worms that swarmed through body tissue and eventually into the eyes, causing painful blindness. A million customers is a good-sized market, except that these were customers who could not afford the product. Knowing that the project would not produce a large return on investment – if it produced one at all – the company nonetheless went forward with the hope that some government agencies or other third parties would purchase and distribute the product once available. No such luck, so Merck elected to establish a trust to give the drug away free to all who needed it ... at its own expense. When asked why the company had pursued the project despite the possibility of making a financial loss, senior executives said that they saw it as important to maintain the morale of their scientists.

Source: adapted from Collins and Porras (2000)

A three-dimensional, rather than two-dimensional, theory of social enterprise leads us into theories that frame social enterprise as a cross-sector phenomenon in which systems of economic exchange are combined to increase opportunities for social value creation.

Cross-sector models of social enterprise

In 1997, Leadbeater used a cross-sectoral model to theorise how social entrepreneurs acquire their skills and outlook (see Figure 2.6). Initially, when social enterprise theory was focused on a continuum between the voluntary and the private sector, Leadbeater's view of social entrepreneurship stood in contradiction to social enterprise theory. By acknowledging the potential for social enterprise in the public and private sectors, cross-sector models offer a way to reconcile social entrepreneurship and social enterprise theory.

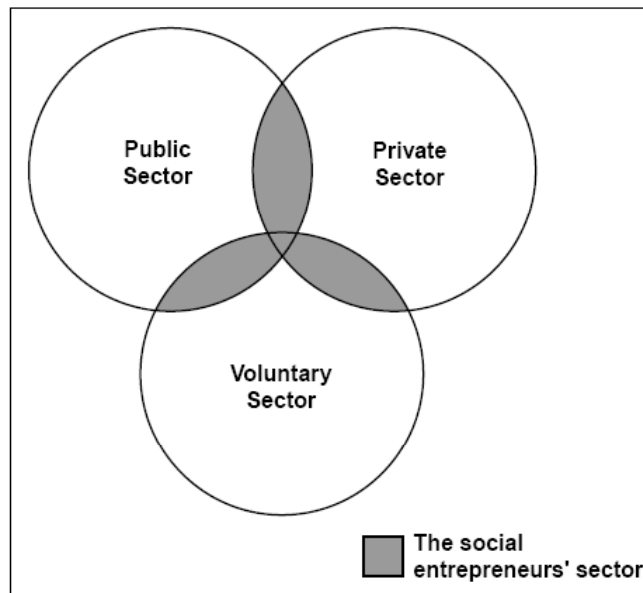


Figure 2.6 Cross-sector social entrepreneurship that creates social capital

Source: Leadbeater (1997: 10), reproduced with permission of Demos (www.demos.co.uk)

In cross-sector models (Venn diagrams), social enterprise is seen as a way of bridging sectors and combining logics by integrating the skills and abilities of statutory providers, private businesses and voluntary organisations. In short, social enterprises create bridging *social capital* (Putnam, 1994) between economic sectors by encouraging dialogue about the mix of economic exchanges that will optimise the bottom lines sought (see the discussion of Polanyi in Part I – Introduction). Interestingly Venn diagrams have been used in sustainability theory to counter over-simplified dichotomies (i.e. to acknowledge interactions between economic, environmental and social issues, see Barbier, 1987). This evolves into discussion of viable enterprise (at the crossover of economic and environment), bearable enterprise (at the crossover of social and environment) and equitable enterprise (at the crossover of social and economic).

As Birch and Whittam argue, social entrepreneurship is a process that catalyses co-operation between parties who would normally avoid each other:

Thus, in relation to social capital, the activity of social enterprise has two major functions in regional development. First is the binding of different groups together in a network, both within specific places such as local communities and, more broadly, at the regional and national scale. Second is the linking of diverse and often disparate normative frameworks (e.g. mutualism and profit-seeking) and structures (e.g. social firms and private companies), which produces new insights and resources through inter-group learning. (2008: 443)

Seanor and Meaton (2008) argue that social enterprises can benefit from this ambiguity by managing the uncertainties in their identity and tapping into more streams of support and funding. Moreover, they can develop hybrid organisations that serve multiple interests (which links to being viable, equitable and bearable in the solutions for a more sustainable society). They also suggest that social enterprises (and not just social entrepreneurs) can be located at the crossover points between the three worlds of the state, private and voluntary/community sectors.

Cross-sector theories take a different position from Defourny (2001) and Pearce (2003). Instead of social enterprises occupying a space in the social economy between non-profit and for-profit

businesses, they are regarded as types developing in all sectors and which may take many forms: charity trading, social firms, social responsibility projects, public–private partnerships, multi-stakeholder co-operatives, mutual societies and employee-owned businesses. Cross-sector theories, therefore, are better able to explain the wide variety of CMEs, SRBs and CTAs that can be observed empirically in the field of social enterprise. Figure 2.7 theorises how the three social enterprise spectra of Figures 2.4, 2.5 and 2.6 contribute to an inner triangle of activity that energises the social solidarity economy (at the centre of the triangle), within which social enterprises have an environment to thrive.

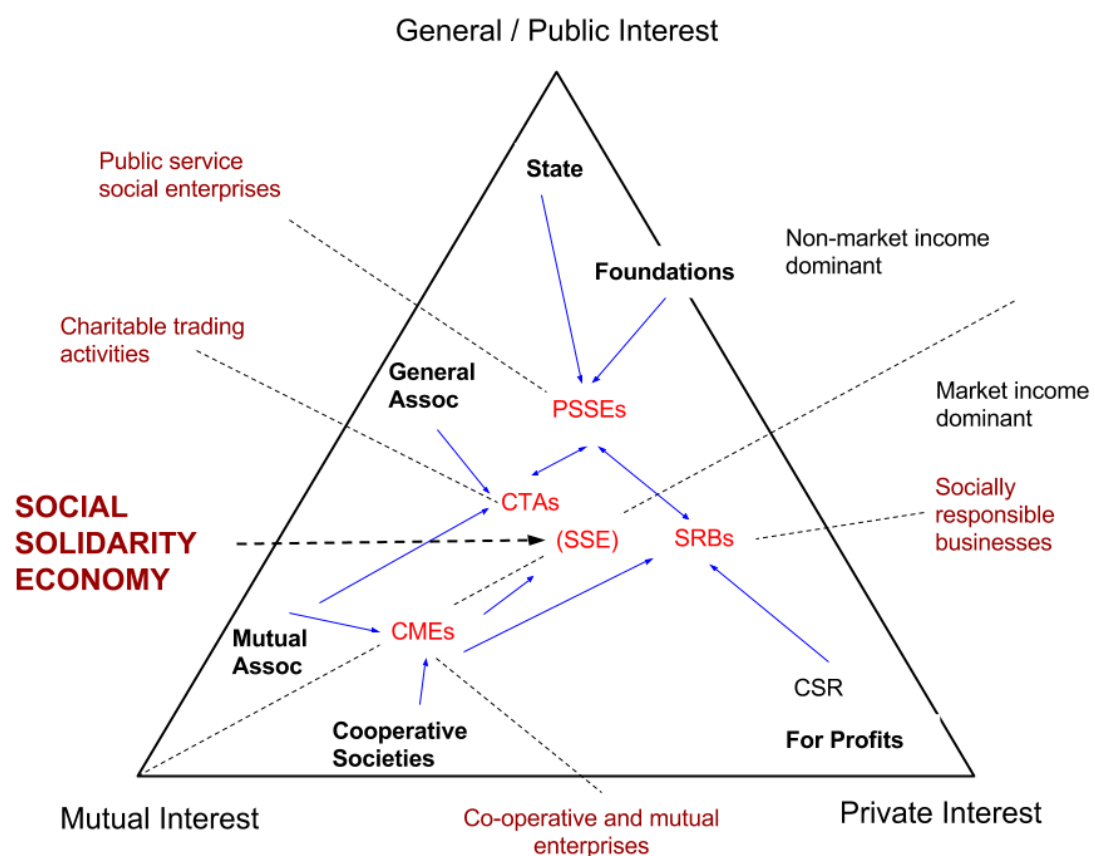


Figure 2.7 A composite theory: the triangle of social enterprise

Adapted from Ridley-Duff and Bull (2016), Defourny and Nyssens (2017) and Ridley-Duff et al. (2018)

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The advantage of viewing social enterprise as a cross-sector phenomenon is that it helps with understanding the ambiguity, origins and ethos of social enterprise activity that arises out of attempts

to combine (hybridise) public, mutual and private interests (Spear et al., 2007). It provides a mechanism for understanding diversity based on alliances and hybrid organisational forms that vary in the extent they embrace the values of other sectors. This theoretical perspective was used by us to map out the very different experiences, concerns and approaches to ‘responsible management’ that new entrants into the social enterprise sector will face (Ridley-Duff and Bull, 2014a). A person or group engaging from the starting point of a community issue, or a disadvantaged or neglected concern will adopt different organisational forms and strategies from someone transforming an NGO, or establishing a public service, or converting a private business to a co-operative enterprise, or a co-operative enterprise into an employee-owned business. In the typology (Table 2.3) we recognise the distinguishing characteristics of CMEs, SRBs and CTAs (Table 2.2), as well as new learning about public social entrepreneurship (Somers, 2013) and an ongoing global study of social enterprise models (Defourny and Nyssens, 2017).

In Figure 2.7 and Table 2.3, we provide not only an interpretation of how CTAs, CMEs and SRBs align with the typology adopted by members of the EMES International Research Network, we also draw attention to assumptions about organisation and projected wealth creation impacts of each approach. It raises the profile of a proposed fourth type based on public service social enterprises (PSSEs) created as subsidiaries of state bodies, charities, foundations, co-operatives, other social enterprises and corporations that deliver (quasi-) public services. However, our argument based in Bull (2018) and Bull and Ridley-Duff (2018) is that despite the PSSE being identified as an important contributing area of products and services in the SSE, each organisation within this area still needs to commit legally and operationally to one of the three types. In short, they operate as either CME, CTA or SRB.

Table 2.3 A social enterprise typology

Charitable Trading Activities	
Acronyms	CTAs (ENPs in EMES typology)
Legal forms	Foundations Charities Community Benefit Co-operatives Non-Profit Enterprises Charity Trading Subsidiaries
Characteristics	More entrepreneurial than traditional non-profits Protect assets for community/public benefit They mix grant/donor income with trading Production for use and/or market
In detail	Defined by their commitment to specified social purposes that positively impact on human or environmental well-being. Primary purpose trading that fulfils the charitable objects of the enterprise. CTAs either aim to generate a surplus/profit or mitigate a loss. By reducing the amounts siphoned off from surplus/profits, they reinvest more in social value creation. The closer organisations are to the social economy, the more comfortable they are expressing income over expenditure as 'surplus'. Structured to eliminate the ownership of financial capital so investors cannot withdraw their money. A 'common good' perspective, 'public interest'. Boards are (by law) required to be voluntary and <i>external</i> (in the sense that they comprise people who are not paid employees). Participation is generally more oriented to <i>external</i> stakeholders because charity and non-profit law frames employee-governors as having a conflict of interest. The logic of charity/non-profit laws reinforces the view that employees are subordinate to board authority and are confined to the 'servant' role in the master–servant relationship.
Wealth creation	Investments of human and financial capital in market activities to achieve SDGs (i.e. protect and enhance natural, human and social wealth).
Co-operative and Mutual Enterprises (includes social co-operatives and solidarity enterprises)	
Acronyms	CMEs (SCs in EMES typology) Primary approach to the SSE
Legal forms	Co-operative Societies/Banks Mutual Societies Credit Unions Building Societies Social and Solidarity Co-operatives
Characteristics	Led by member-owners Elected governors Democratic participation Production for use and market
In detail	Defined by their commitment to (or innovative systems for advancing) socialised, democratic/inclusive ownership, management and governance. Promote solidarity among member-owners to positively impact on the well-being of workers, customers, the local community and environment. Tend to be constituted as a CLS (company limited by shares), partnership or co-operative society because social value creation is linked to the enterprise's capacity to distribute surpluses equitably among a large number of stakeholders. Worker and consumer co-operatives as well as employee-owned enterprises may issue share capital to members of staff and consumers. CMEs have a track record of transforming patterns of ownership, power and wealth. Their products and services may be indistinguishable from those produced by others and may be sold at market rates. This is, however, to miss the point. Trading is the <i>means</i> by which a different social mission is

	achieved.
Wealth creation	Human, social, intellectual and financial wealth sharing via: <ul style="list-style-type: none"> – Co-ownership – Participation – Equitable profit sharing – Improved working and living conditions
Socially Responsible Businesses	
Acronyms	SRBs (SBs in EMES typology)
Legal forms	Company/Corporation with social objects Benefit Corporations Community Enterprises
Characteristics	Led by member-owners Elected governors Democratic participation Production for use and market
In detail	Defined by their commitment to (or innovative technologies for) ethical trading and sustainable development. Adapting private sector practices and business models to make the well-being of individuals, communities and the natural environment a higher priority than profit maximisation. SRBs retain private sector characteristics. SRBs exist entirely within the market system (the selling of goods and services). The closer organisations are to the private economy the more comfortable they are expressing income over expenditure as ‘profit’. A managing director can be a full member of the governing body. This follows the private sector norm of supporting founding entrepreneur(s) who wish to maintain control over the organisations they create.
Wealth creation	Use of intellectual, manufactured and financial wealth to produce a public benefit – typically a social investment that protects/enhances natural, human or social wealth
Public Service Social Enterprises	
Acronyms	PSSEs (PSEs in EMES typology)
Legal forms	State backed organisations (charities and/or companies and/or corporations and/or co-operatives) that work to extend public service provision
Characteristics	Public servants work with community leaders Creates partnerships with other social enterprises Public investments Favours production for use
Wealth creation	Protection of natural, human, social and financial wealth through improved access to and/or higher quality public services

Source: Adapted from Ridley-Duff and Wren (2018)

Even though cross-sector models address the theoretical weaknesses of two-dimensional spectra, they do not, on their own, provide the same level of detail or insight into practice. Both spectra and cross-sector models are needed to capture the micro and macro aspects of social enterprise theory. In our latest publication (Bull and Ridley-Duff, 2018) we have developed our thinking further. We outline enterprise orientations based on the influential early work of Dees (1998), Westall (2001) and Alter

(2004, 2007) which we have discussed in this chapter (see Figure 2.8). We highlight how each theoretical conceptualisation of social enterprise maps against each other. This figure highlights the differences we have explored through the spectrum and cross-sectoral models, thus encapsulating the breadth of social enterprise theory.

< - Philanthropic Enterprise Orientation - Commercial Enterprise Orientation - >					
Theorist	(SE) Business Model				
Dees (1998)	Mission driven		Mission and market driven		Market driven
Conaty (2001)	Charity		Co-ops and mutuals		Social business Small businesses
Westall (2001)	No owners (Trustees)		Multi-stakeholder governance / multiple owners		Outside shareholders
Cornforth (2003)	No owners, trustee-controlled and governed Compliance/rubberstamp model		Member-owned, controlled and governed Democratic model		Investor-owned, controlled and governed Agency theory
Alter (2004)	Traditional non-profit	Non-profit with income generating activities	Social enterprise		CSR Traditional for-profit
Ethics and Rationality (Wagner-Tsukamoto 2005, 2007; Bull et al 2010)	Level 5 Active blended moral agency supported by formal rationality		Level 3 and 4 Active moral agency rooted in social and substantive rationality		Level 1 & 2 Unintended moral agency
Bull (2008, 2015)	Charity law		Society law		Company law
Hjorth (2013)	Socialising			Economising	
Laasch and Conway (2015)	Business foundation		Social enterprise		Responsible business Irresponsible business
Defourny and Nyssens (2016) ICSEM Project.	Entrepreneurial non-profits (ENPs)		Social co-operatives (SC)		Social businesses (SB)
	Public Sector Social Enterprise (PSSE)				
Ridley-Duff and Bull (2016)	Charitable activities	CTAs (Charitable trading activities)	CMEs (Co-operative and mutual enterprises)	SRBs (Socially responsible businesses)	For-profit business

Figure 2.8 An overview of SE theories

Source: Bull and Ridley-Duff (2018)

The spectrum from ‘philanthropic enterprise orientation’ through to ‘commercial enterprise orientation’ helps to synthesise theorists’ representations but also to align their thinking and ours. This table helps support our argument for the three core types of social enterprise, the CME, the CTA and the SRB through a relationship with other conceptual models. Interestingly, the UK Government’s Department

for Business, Energy & Industrial Strategy and Department for Digital, Culture Media & Sport co-published their revised criteria for defining social enterprise in the UK (2017).

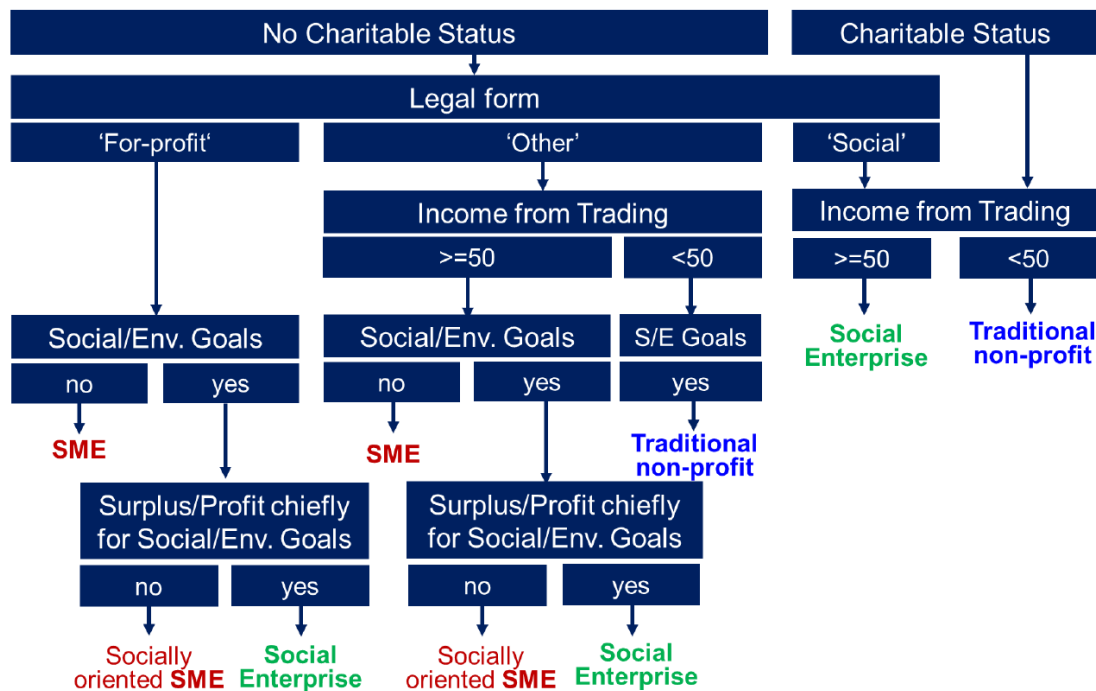


Figure 2.9 Decision tree typology – 2017 UK government survey

Figure 2.9 highlights that their criteria is based on three levels (trading income, social/environmental goals, reinvestment of surpluses into goals) in a 'decision tree to identify social enterprises'. The five criteria are: 1) charitable status or not; 2) legal form; 3) trading above or below 50 per cent income; 4) social/environmental goals; and 5) the use of surplus/profit for social/environmental goals. In Bull (2015, 2018) the legal forms of social enterprise are acknowledged. We see in all three of our types the relevance to criteria 4 and 5. However, it is criteria 3 which strikes a chord with the ways in which we have positioned this book since the first edition in 2011. We see social enterprises as self-sustaining entities which generate earned income as a core purpose, thus greater than 50 per cent sets the bar high for those organisations in transition from the traditional roots of charity/community and voluntary types. However, this bar already has traction in CMEs and the social solidarity economy.

Class exercise: Analysing the nature of social enterprise

Materials to support this exercise can be found on the companion website at <https://study.sagepub.com/ridley-duff3e>.

On your own, choose five organisations that you believe ‘break the mould’ in terms of contributing to environmental, social or economic sustainability. Using a cross-sectoral model of the economy, write the names of the organisations you have listed onto the appropriate part of the diagram. Add notes to explain your choices.

Pair up with another person. Compare your diagrams. If any organisations are unknown to the other person, explain why you selected them and how they ‘break the mould’. Debate with each other your reasons for selecting these organisations, and discuss whether they are, or are not, social enterprises.

Find another partner, compare diagrams, and have another discussion.

In the next section, we consider the view that social enterprise is an activity that promotes solidarity between stakeholders to create a complete paradigm shift in the nature of business, society and economic thinking.

Social enterprise as a solidarity enterprise

So far, we have covered the framing of social enterprise as a spectrum of options, and as a hybridised form of business that combines the economic logics of redistribution (through states, charities and foundations), reciprocity (through co-operatives, mutuals and associations) and market (through private businesses and general commerce). However, over the last seven years, we have become more convinced that it is insufficient to frame social enterprise *only* from the perspective of people who have engaged Ashoka-style SRBs, or built CTAs in which social enterprise language aids the transformation

of non-profits, public services and private businesses. For those inspired by the examples from Mondragon (Spain), social auditing (UK), Bologna's social co-operatives (Italy) or the Grameen Foundation's 'second type' social business (Bangladesh), the question arises as to what innovations in CMEs have been taking place?

Our desire is to avoid the trap of thinking that all social enterprise aims to 'heal' an existing system that is failing, rather than a way to further the development of an alternative economic system that is stable, healthy and committed to furthering human and environmental well-being. From a critical perspective (Alvesson and Deetz, 2000), the 'activity' debate sounds like a rhetorical ploy aimed at obfuscating and neutralising the threat of social enterprise by characterising it as a helpful, even benign development of neo-liberalism (such as BONGOs that work in partnership with the capitalist system), rather than a concerted attempt at pattern-breaking that catalyses radical social change (such as DANGOs discussed in Chapter 1). Dey and Steyaert (2012) agree. They suggest that there is a tendency developing that reduces radical, left-inspired paradigm shifting approaches to social enterprise to one based on a de-politicised, economic engine for public benefit.

Two examples (and Case 2.6) should suffice to illustrate this. Firstly, there is Creative Commons (www.creativecommons.org), a global movement to license intellectual property (IP) in a way that gives, rather than denies, public access. Its 2014 and 2016 *State of the Commons* reports (<https://stateof.creativecommons.org/>) shows a 26.7 per cent increase (to 1.2 billion) in the number of items licensed using Creative Commons. In 2014, new licences were being requested at a rate of 761,643 a day. Between 2014 and 2016, the proportion of items that could be exploited commercially (so long as the user follows the licence terms) rose from 37 per cent to 59 per cent. Importantly, the world's most popular encyclopaedia – Wikipedia – uses Creative Commons to license its articles. Its own annual report (https://wikimediafoundation.org/wiki/Annual_Report) claims a three-fold increase in the number of donations that pay for core costs in the last four years (two million in 2012–13, rising to six million in 2016–17). Editors add about five million new articles a year (Wikimedia Foundation, 2014), and there are 15bn visits per month (two for every person on the planet).

Case 2.6 Growing international co-operation

At the International Co-operative Summits in Quebec (October 2014 and 2016), global reports were submitted by EURICSE, CICOPA and the United Nations that are producing new claims about the prospects of the co-operative economy:

- Estimates for employment in CMEs have been revised upward from 100 million jobs (in 2012) to 250 million jobs (in 2014) following new research in 75 countries by CICOPA. They were raised again to 279 million jobs in 2017 (Eum, 2017).
- Estimates of the value of goods and services traded by CMEs has been revised up from ‘over \$1 trillion dollars’ (in 2012) to ‘\$2.6 trillion’ (in 2014) following improvements in data collection by EURICSE for the World Co-operative Monitor. Over a quarter of financial services in Europe are provided by mutual financial institutions.
- The United Nations has found statistically significant links between reported levels of co-operative development and its index of social progress indicators, a finding ‘cautiously welcomed’ by the International Co-operative Alliance.
- Universities have created a social enterprise (IS4OA CIC) that promotes open access to top quality research. At the time of writing, 3,001,707 academic articles (up from 2,197,368 in July 2015) were available from 11,146 journals. In July 2015, the UK government announced it would only pay universities for research allowance if outputs were available to the public on an open access basis.
- Fairtrade International (2013) reports that sales by small producer organisations (SPOs) rose by 41 per cent in 2012 to €822 million, whilst fairtrade premiums rose by 52 per cent. In contrast, fair trade sales by ‘hired labour organisations’ (HLOs) were unchanged at €91 million, and fair trade premiums to them fell by 3 per cent. This trend is confirmed by the 2015 Fairtrade Foundation report which shows a 35 per cent increase in the number of certified producers from 2010 to 2014 and the proportion of SPOs rising from 73 to 80 per cent.

Source: Ridley-Duff and Bull (2018)

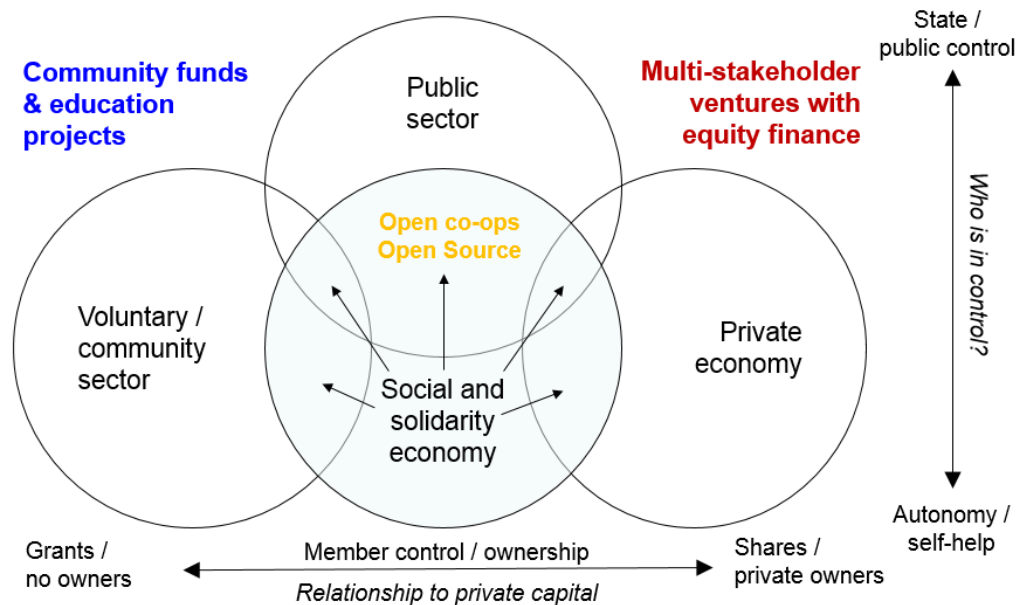


Figure 2.10 The emergence of new member-control/multi-stakeholder enterprises and institutions

Source: Ridley-Duff and Hurst (2014b)

If we think of the framework we introduced in Chapter 1 (Westall, 2001) in which there was a ‘fourth space’ in which social enterprises proactively build a social and solidarity economy, we can more easily theorise developments in multi-stakeholder approaches to governance and ‘solidarity co-operatives’ based on member-owned business models (Birchall, 2009, 2012; Ridley-Duff, 2012, 2015). These provide a framework for understanding that co-operative schools, **crowdfunding/investing**, open systems for supporting co-operation (like Creative Commons and Loomio) and open source software products (like Linux, Apache, Wordpress and Wikimedia) are not just attempts to ‘mitigate failures in the state or market’ (Alter, 2007). They are contemporary developments that advance a ‘new co-operativism’ (Vieta, 2010) that builds on, but is not a slave to, past traditions in co-operation and mutuality (Figure 2.10).

Westall’s model *also* makes it easier to theorise efforts at *transformation* that use mutual principles in combination with other legal forms to forge new CTAs, SRBs and PSSEs. This includes: **CIO** (charitable incorporated organisation) associations and co-operative CICs (UK), social co-

operatives (EU), solidarity enterprises (US/Latin America), B-Corporations (US), social responsibility corporations (Japan), and all manner of approaches to ‘spinning outs’ mutualised public services. All of these activities enrich and diversify the fourth space (see Figure 2.11).

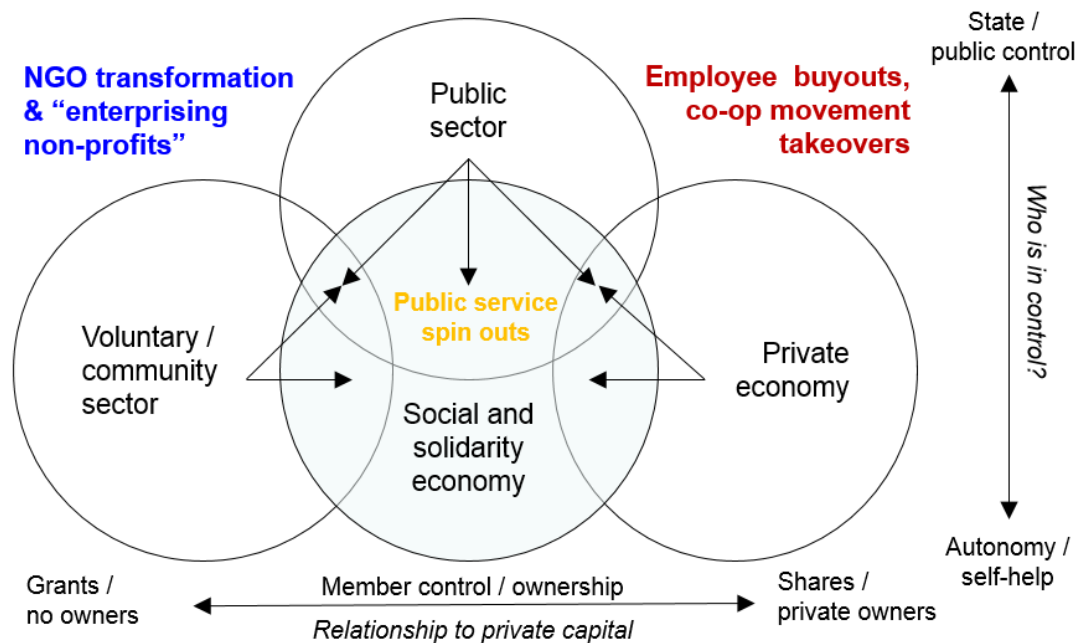


Figure 2.11 Transforming public, private and voluntary community sectors into a social/solidarity economy

Class exercise: Social enterprise as social and solidarity economics

Choose an industry that contributes significantly to your local economy and host a discussion about the organisations, enterprises and government support bodies that shape the industry. If possible, identify the legal forms that shape the organisations you discuss, the goals they have and the benefits they create. Using Figure 2.10 and 2.11, ask students to explore the industry in terms of its contribution to

developing entrepreneurial practices based on the norms of the private, voluntary, public or social and solidarity economics.

- Ask students (in groups) to present their conclusions.
- Play the students the following video to conclude the session:
www.youtube.com/watch?v=-RwYZXUQaEw.

Conclusions

Some time ago, Dees (1998) suggested that because of the complex structure of social enterprises, and variance in their definition, any generalisations are problematic. There is no single, agreed set of words that clearly defines social enterprise. Such debate is inevitable, not only because many parties are competing to influence the definitions that are used on the ground, but also because it takes time for a social movement to learn which forms and activities work sufficiently well in practice to warrant institutional support.

Over time, there has been some convergence regarding the ‘lowest common denominator’ of *trading to support social aims* (Peattie and Morley, 2008) even if the social aims themselves vary so greatly that no broader consensus is possible. In our own survey (on ‘socialised’ and ‘social purpose’ enterprises) we asked if each characteristic should apply to ‘none’, ‘some’, ‘most’ or ‘all’ social enterprises. The results showed a very high level of consensus around four of the twenty characteristics:

- stating (and reviewing) ethical values and principles
- making clear statements about social and/or environmental purposes/objectives
- providing evidence of a positive social impact and/or intention to run for community benefit
- reinvesting most surpluses/profits back into social/environmental purposes.

However, we found substantive differences between UK, EU and Asian respondents, with Asian respondents showing a much stronger commitment to the characteristics of ‘socialised enterprises’ and ‘production’, and less to ‘social purpose’ and ‘welfare’. This is worth further investigation because it

may indicate that social enterprise is perceived as welfare delivery in developed countries, but as a mode of production in developing countries. Moreover, the surprising finding that ‘stating (and reviewing) ethical values and principles’ generated the strongest consensus suggests to us that we need a much more detailed exploration of alignments between UN 2030 Sustainable Development Goals, ‘responsible business’ and the social enterprise movement (see Ridley-Duff et al., 2018). Ethical capital (Bull et al., 2010) is a more salient concept than we previously thought so we will return to it in Chapter 7.

Going forward, we wish to explore the nascent ideology of new co-operativism and the evolution of the social solidarity economy to establish what is distinct and different about them. Certainly, we see evidence that there is a positive ideology, proactively generating the institutions needed for the growth of the social solidarity economy. This is rooted not simply in a desire to ‘solve problems’ but also to proactively create a more open, shared, democratically organised economy because of its intrinsic stability and potential to productively employ more and more people. In this space, the ‘defining cluster’ of characteristics are those identified by Social Enterprise International Ltd for its FairShares Model of social enterprise (Ridley-Duff and Bull, 2013; Ridley-Duff and Southcombe, 2014; Ridley-Duff, 2015, 2018; Boeger and Villiers, 2018):

- specifying purpose(s) and evaluating the impact(s) of trading activities (CTAs)
- conducting ethical reviews of product/service choices and production/consumption practices (SRBs)
- promoting socialised and democratic ownership, governance and management (CMEs).

Source: Social Enterprise International Ltd, <http://sei.coop/definition/>

This definition frames the three approaches we have discussed in Figure 2.2 and Table 2.2 (CTAs, SRBs and CMEs) as a set of foundational commitments – each with a cluster of characteristics and emerging legal forms (Bull, 2018) – that researchers can investigate empirically. The level of innovation in each of these domains will be important so we will keep returning to this in later chapters.

Over the longer term, social enterprise will be determined not by theorists but by social practices and institutions that are associated with, and labelled as, social enterprises. The role of the theorist is to provide frameworks that are adequate for the purposes of making practices and organisational forms intelligible and accessible for discussion. While this chapter provides a number of lenses through which to understand social enterprise, the choices that matter will be made by those who self-consciously pursue sustainable ways of creating social, environmental and economic value.

Summary of learning

Different meanings are attached to social enterprise in the American non-profit sector, UK third sector, European, Asian and Latin American social solidarity economy.

Social enterprises transcend traditional sector boundaries and have the potential to form a social solidarity economy with distinct characteristics and language.

Models and diagrams can help to describe and explain the boundaries of the social solidarity economy, and its link to other economic activities.

Social enterprise is a useful umbrella term for any (democratic) organisational form or activity where ‘people are not in it for the money’ but still generate a financial surplus.

Social enterprise can be seen as a ‘fix’ for the ills and addictions of a capitalist system, or as a social democratic movement intent on transforming economic and social relationships.

Questions and possible essay assignments

1. ‘Social enterprise concerns the pursuit of particular activities rather than ... the democratic transformation of trading organisations’. Critically discuss the limitations of this perspective.

2. Compare and contrast Pearce's three-system model, and the position of social enterprises within it, with other theoretical perspectives on social enterprise. Assess the value of social enterprise theory that constructs it as a cross-sector phenomenon.
3. Critically assess the EMES definition of social enterprise in relation to writings by Greg Dees on social entrepreneurship and Muhammad Yunus on social business.

Further reading

There are some good texts at introductory, intermediate and advanced level. Pearce's *Social Enterprise in Anytown* (2003) has established a good reputation as an entry-level text, and this has recently been joined by Price's *Social Enterprise: What it is and Why it Matters* (2008). A broad and swift journey through the literature up to 2007 can be found in Peattie and Morley's (2008) monograph for the ESRC. Students studying social entrepreneurship will benefit from reading Martin and Osberg's (2007) discussion of the case for definition.

We also recommend three key publications from the EMES International Research Network. Firstly, the *Emergence of Social Enterprise* edited by Borzaga and Defourny (2001) is an essential resource for researchers, particularly the analysis of the influence of co-operative and non-profit traditions by Defourny. Secondly, there is further development of the theoretical base for social enterprise in *Social Enterprise at the Crossroads of Market, Public and Civil Society*, edited by Martha Nyssens (2006). Thirdly, *Social Enterprise and the Third Sector* edited by Defourny, Hulgård and Pestoff (2014) provides coverage of US–European debates with references to developments in other parts of the world. Finally the ICSEM project outputs, mapping social enterprise across different countries of the world is well worth exploring.

For coverage of the field from an Oceania and Asian perspective, see the edited collection by Douglas and Grant (2014) titled *Social Entrepreneurship and Enterprise: Concepts in Context* and Marie Lisa Decanay's (2011) edited volume on *Measuring Social Enterprises*. The former is a more scholarly work, while the latter is aimed at practitioners and will need to be ordered direct from the

Institute for Social Entrepreneurship in Asia (ISEA). There is further scholarly coverage on Eastern Asia in a Special Issue (Volume 7, Issue 1) of the *Social Enterprise Journal* and in ‘Innovation in Emerging Economies’ (Volume 3, Issue 1) of the *Journal of Social Entrepreneurship*.

In addition to the above two journals dedicated to the field, frequent coverage can be found in: *Journal of Co-operative Organization and Management*; *Journal of Co-operative Studies*; *Non Profit and Voluntary Sector Quarterly*; *Voluntas*; *Journal of Business Ethics* and the *Annals of Public and Co-operative Economics*. Furthermore, there have been special issues on social enterprise and social entrepreneurship in *Entrepreneurship, Theory and Practice* (Volume 34, Issue 4), the *International Journal of Entrepreneurial Behaviour and Research* (Volume 14, Issue 5), *Academy of Management Learning and Education* (Volume 11, Issue 3), and special issues on co-operatives in *Business History* (Volume 54, Issue 6) and *Organization* (Volume 21, Issue 5).

The five additional articles we have selected include two primers suitable for undergraduates: Teasdale’s (2012) article ‘What’s in a name?’ which is worth reading together with Ridley-Duff and Southcombe’s (2012) critique of the Social Enterprise Mark. For students studying at a higher level, we have selected Domenico, Tracey and Haugh’s (2009) theoretical and empirical analysis of cross-sector collaboration and a review article on hybridity in social enterprise by Doherty, Haugh and Lyon (2014). Lastly, we refer you to our *Journal of Business Ethics* paper (Bull and Ridley-Duff, 2018), which discusses ethics in social enterprise business models.

Further reading material is available on the companion website at: <https://study.sagepub.com/ridley-duff3e>.

Useful resources

Co-operatives UK: www.uk.coop/

EMES European Research Network: www.emes.net

FairShares Association: <https://fairshares.coop>

Global Social Economy Forum: <http://gsef2014.org/>

ICSEM: [<https://www.iap-socent.be/icsem-project>]

Institute for Social Entrepreneurship in Asia: www.isea-group.net/

Intercontinental Network for Social & Solidarity Economy: www.ripess.org/?lang=en

International Co-operative Alliance: <http://ica.coop>

Social Enterprise Academy (Nigeria): <https://sea.ng/>

Social Enterprise Alliance: [www.socialenterprise.us /](http://www.socialenterprise.us/)

Social Enterprise International: <https://sei.coop/>

Social Enterprise Mark: www.socialenterprisemark.co.uk/

Social Enterprise UK: www.socialenterprise.org.uk/

Social Ventures Australia: www.socialventures.com.au/