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Ethical Capital:
The Neglected Aspect in the Conceptualisation of Social Enterprise

Mike Bull, Centre for Enterprise,
Manchester Metropolitan University Business School

Dr Rory Ridley-Duff, Centre for Voluntary Sector Research,
Sheffield Hallam University

Dr Doug Foster,
University of Surrey

Pam Seanor,
University of Huddersfield

Correspondence: m.bull@mmu.ac.uk
Abstract

Current conceptualisations of social enterprise fail to fully satisfy an understanding of the movement. A focus on the economic implies a business model where deep tensions lie. A focus on social capital offers a different frame of reference yet questions remain as to the distinctive characteristics of these organisations. Ethical capital is offered here as the neglected conceptualisation in the field of social enterprise.

It will be argued in this paper that the conceptualisation of ethical capital has major implications for the development and understanding of the sector. To frame this topic, the paper explores the current conceptualisations within the field of social enterprise, namely the economic lens, the social capital lens and finally an ethical lens.

Ethical capital was first brought to the authors’ attentions during Voice 07. The opening plenary included a rousing speech by Tim Smit of the Eden Project that introduced ethical capital as the motivation behind why his top executives chose to work in the sector.

If people are now choosing not to work for private or public sector organisations but are instead seeking work in third sector social enterprises – some consideration of the different moral and ethical codes that attract people to the sector is required.

This paper, is exploratory in nature, and sets out to investigate some of the issues in order to provoke further research of the conceptualisation of ethical capital. As authors, we felt it important to theoretically explore the concept, and tentatively discuss several themes – all of which are outlined to provoke response, all of which need further research to tease out the detail. Theme 1 discusses the levels of ethical capital, bridging from the private sector into the social sector. Theme 2 deconstructs the ethics of social enterprise and theme 3 questions moral agency through a conventional and enforcing enterpriser or the greater good through a critical and creative moral enterpriser?

This paper is very much a tentative piece that provides an introduction to the debate that we hope is taken up by others and developed and refined in order to deepen the understanding of social enterprise.
Introduction

We live in an anti-hierarchical age, in which deference to traditional sources of authority – the social order of class, the churches, the traditional family – is in decline. The ethic of individual self-fulfilment and achievement is the most powerful current in modern society. The choosing, deciding, shaping individual who aspires to be the author of their life, the creator of their identity, free within their private sphere, is the central character of our times. For many people, social progress is measured by the expansion of individual choice within this private sphere. This individualism is not just consumerist. It is also moral. In many ways this is a more moral time than in the 1950s and 1960s. Young people these days feel more passionately and morally about a wider range of issues than they used to – from our treatment of the environment and animals, to gender, race and human rights around the world. People are more likely to challenge the right of established figures of authority to lay down the moral law. For many people, especially young people, these are arguments that we need to rebuild a sense of community.

(Leadbeater; 1997:14)

In Leadbeater’s account of modern times, the changing nature of society, its values and ethics, are one discourse on the social frameworks in which we now live. Within the business world there are increasing demands regarding the impact of economic activity and on the natural environment. Rhetoric on corporate social responsibility is commonplace in annual accounts and corporate reports, albeit often treated internally as an issue for the survival of the business through glossy forms of accountability and marketing, rather than a broader commitment to sustainability per se.

Coinciding with this is the fair trade movement, which aims to move beyond rhetorical expressions of responsibility to structure trading relationships in such a way that the weaker party is not left at the mercy of market prices (Jones, 2000; Allen, 2005).

These developments are grounded in codes of conduct that reflect the morality of the age in which we live. Many examples of all forms of socially and environmentally responsible forms of organisations are starting to flourish and create an impact worldwide; Ben and Jerry’s; Bodyshop; Timberland; Howies; John Deere; Traidcraft; The Eden Project. Yet there is the question of whether these organisations are actually enact ing more moral and ethical behaviours, it is also unclear where the boundaries of their moral frameworks
lie. Keller (2007:160) outlines thinking that dominates capitalism by illustrating that in the economics of the Chicago School (Milton Friedman et al) and the Austrian School, all human motivation, decisions and exchanges are based on utility maximization. As Friedman suggests:

‘There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud.’

(Friedman, 1970/1993, p. 254)

This ‘staying within the rules of the game’ represents a framework for moral evaluation, but as Friedman suggests, profits are the primary concern of a business. If executives and employees behave as if profits are not their highest responsibility, argues Friedman, shareholders and directors are fully justified in taking punitive action against them (Friedman, 1962). Keller (2007:161) suggests that the extreme individualism of the conservative model has become a hallmark of the US economy and, when mixed with the Ricardian model of trade, the call to globalisation dominates western life.

This paper takes us beyond Friedman through an exploration of alternative moral positions that may better explain the phenomena of social enterprise. The juxtaposition of capitalism and ethical behaviour is discussed. We challenge the neoclassical view and the current conceptualisation of ethical capital in the context of social enterprise.

As Keller further argues, the school of thought associated with conservatism creates an analytical framework that economists are increasingly regarding as unrealistic. The norms of social behaviour advocated by individualist economic thinking, therefore, transform into “prescriptions for behaviour that leave society with a negative ethical base” (Keller, 2007:162). The problem faced is pervasive ethics that “has been used to force the consideration of market solutions for a broad range of social problems including ethical problems”.

To a greater extent, we now live in an age where ethical values and moral codes are becoming part of the manifestos of organisations. This is particularly true in social enterprises where the primary purpose of organisations is focussed on the ‘social’ (Pearce, 2003). The ‘social’, in the social enterprise context, extends to environmental
and social action organisations in which utopian moral and higher ground ethical positions are taken to have greater legitimacy than other forms of private, for private profit, businesses. This higher ground claim, it is argued in this paper, forms part of the defining characteristics of social enterprise. A better understanding of these claims will make a significant contribution to understanding and developing the sector.

Ethical capital was first brought to the authors’ attentions during the opening plenary at Voice 07 (the Social Enterprise Coalition’s ‘trade fair’ for the sector). Voice brings together people that work around and in social enterprise. The opening plenary included a rousing speech by Tim Smit. His organisation, The Eden Project, has transformed the land and environment in a corner of England’s South West and he is further seen as one of the country’s leading social entrepreneurs. The Eden Project is described as a ‘living theatre of plants and people’, an attraction site that includes landscapes, plants and much more. In his speech, Smit claims (SEC, 2007);

One of the most interesting things I have come across recently is that a lot of people in the city reckon that corporate life as we know it is going to be dead in thirty years. And I would say that Eden would be a good example of why. When I look at my top executives, the top eight people who work for me are all people who have decamped from very successful jobs in very successful organisations, because they no longer want to work for corporations where there is no ethical capital, and this is happening all over the place. Nowadays 40% of school leavers apparently do not want to work for a corporation. [emphasis added]

If people are now choosing not to work for private or public sector organisations but are instead seeking work in third sector social enterprises – some understanding of ethical capital is obvious – however, scant attention has been given in the literature to date. This paper, therefore, sets out to explore these issues in order to provoke further exploration of the conceptualisation of ethical capital.

In the next section, conceptualisations of social enterprise are examined. This is followed by a theoretical view of the moral codes underpinning different forms of enterprise activity. In the main discussion parts of the paper, we bridge the two and offer a foundation for further explorations of the links between different approaches to ethical capital and enterprise. In doing so, the paper represents initial steps towards the conceptualisation of ethical capital and its place in social enterprise theory.
Current Conceptualisations of Social Enterprise

The surge of interest in the social enterprise business model has made waves around the world (Nicholls 2006b; Bornstein 2004). But what exactly is different about the third sector from private enterprise? And now more crucially, what is the difference between private enterprise and social enterprise? The current conceptualisations are based on ongoing debates about the definition of social enterprise. As Nicholls (2006a) suggests:

> Understanding the distinct value proposition of social entrepreneurs is crucial. . . innovative social ventures blend their value creation around both economic and social impacts across their unique ‘social’ value chains. Moreover, real values are at the heart of all strategic planning within the genuine social venture, whether it be a commitment to community building, social justice, or eliminating suffering. A clear set of values that can be articulated are the DNA in every social venture and should frame its value proposition and drive its commitment to change the status quo”

So conceptualising the field of social enterprise and social entrepreneurship is of value to those within and to those entering the field in order to unpick the constituent parts of what defines and characterises these organisations. Understanding the value of social entrepreneurs and the transformations of capital (physical, economic, human, intellectual, social and ethical) is crucial to the development of the field, and the drive for change. So, what Nicholls (2006a) refers to as the DNA within every social venture is what is under the microscope here.

In the past decade there have been several characterisations of the term social enterprise (see Leadbeater, 1997; DTI, 2002; Pearce, 2003; Pharoah et al., 2004; SEC, 2004) yet there are different perceptions from one country to another (Kerlin, 2006) that reflect the underlying philosophical commitments of practitioners (Ridley-Duff, 2007) and the general resistance to the adoption of any critical perspective (Seanor et al, 2007). Furthermore, the theoretical lenses through which social enterprises are viewed add more complexities, that yield further interpretations and questions about our current understanding and framing of the subject (see Curtis, 2008). The field is still emerging and missing unresolved characteristics that support the ‘social’ within the context of an ‘enterprise’. Social enterprises are perceived to be part of a social transformation project and they adopt and operate differently to the other systems (public and private). They are characterised as ‘not for private profit’ (DTI, 2002) or ‘more than profit’ (Ridley Duff,
2008), or an enterprise that is primarily social, enacted through and secondly a business (Pearce, 2003). Conceptualising the importance of social capital in social enterprises has also been evidenced in the field (Hulgard and Spear, 2006) but moral and ethical capital is, perhaps surprisingly, neglected in the debate to date.

This paper very much aims at starting that process of intellectual debate about the notion of ethical capital in social enterprises, the paper now explores the current conceptualisation of economic and social capital before moving on to explore ethical capital.

**Conceptualisation 1 – The Economic Lens**

The emergence of the term ‘social enterprise’, and the organisations recognized as such, have evolved due to the changes in government and other funding opportunities within the community, voluntary and non-profit (social) sectors - specifically the move from grant giving to competitive tendering and contracting for public services as part of the devolution, deregulation and privatisation of welfare states globally over the past 20 years (Pearce 2003; Goerke 2003).

Pearce (2003) describes social enterprises as part of the third system, closer to the first system (private business), than the second system (public provision), yet primarily social and secondly a business. Social Enterprises are described as trading organisations in a market (Pearce 2003). A focus and operationalisation for social enterprises to be ‘business-like’ and ‘entrepreneurial’ is well documented (Leadbeater 1997; Dees 1998; Nicholls 2006b). Yet, if as part of the third sector, social enterprises are as Dart (2004) suggests; ‘blurring the boundaries between non-profit and profit’, then what blurs? What is compromised? What exactly is lost (or gained)? What challenges are there for social enterprises? And is a managerialist ideology taking precedence over the social? Turnbull 1994; Terry 1998; Hulgard and Spear 2006 have their concerns but at the fore is a heightened focus or market ideology from funding providers where competition has led to greater demands, requiring more from organisations in the non-profit sector in terms of management systems, quality standards and marketing (Smallbone et al 2001; Paton 2003; Pearce 2003).
However, the push towards a market driven agenda and an enterprise culture within social enterprises is not without its problems. Maitland (1997) raises a major concern for organisations when he points out that;

“the market frees individual acquisitiveness from moral, social and/or religious constraints. While this acquisitiveness can be a source of great energy and creativity, it is also a turbulent, disruptive, and potentially disintegrative force. Moreover, the market is believed to contain an expansionary dynamic, so that unless it is contained it progressively invades and colonizes other spheres of our social lives.” (1997:18).

Keller (2007) adds that the neoclassical model is in effect Social Darwinism, not far removed from survival of the fittest. Ultimately, the rules of the game applied with the ultimate goal of market efficiency. Maitland continues to list the charges against the market, suggesting that morality is being weakened by the hand of the market;

• It releases self-interest from moral restraints.

• It erodes all social ties other than purely economic ones and/or converts social relationships into instrumental ones (“commodifies” them).

• It promotes a preoccupation with narrow individual advantage at the expense of responsibility to the community or social obligations.

• It substitutes competition for voluntary cooperation.

• It favors materialistic or hedonistic values.” Maitland (1997:18)

Maitland certainly has a point and social enterprises need to be aware of the tensions in the ideology of the market. As MacIntyre suggests; “the normal operation of the market offers people powerful inducements to desert the virtues. If not by inclination, then in self defence, people find themselves compelled to conform to market norms of behaviour.” (As quoted in Maitland (1997:20). How social enterprises are in practice dealing with the desertion of their virtues needs further research. Seanor et al (2007) provide some light when discussing case studies, evidencing the engagement of organisations with the market as something of a ‘smash and grab’ – where organisations could be described as moving out of the ‘homelands’ of the social (virtuous) sector into the ‘wills’ of the market terrain (business-like world) to win contracts, and then retreating back into the homelands and comfort zone whilst delivering the project. When considering the sentiments of the
theory of the market, it becomes only too real what social organisations ‘give up’ on their forays into murky waters, Keller (2007) adds;

“economics is amoral and that it cannot be used to answer normative questions like the fairness of the distribution of income. In essence, the neoclassical economic ideal presents us with an ethic by placing economic efficiency before us as the highest end, and utility/profit maximization as the only means to that end.”

There may however be some hope for those social enterprises that do not enter the murky waters, as Maitland (1997) suggests, that those who cultivate the virtues of the social, will be a source of economic benefit\(^1\) and may be more successful in the marketplace because of the valuable ethical capital they possess.

Yet, the conceptualisation of the market and the focus on economics has created a situation that places the business case as the fore. Arthur et al (2006) however, warn that;

“…a ‘business case’ narrative and discourse is being privileged in the practice of social enterprise research to the detriment of providing conceptual and theoretical recognition of the social.”

The privilege of the business model in social enterprise research is detracting attention from the foundations of the field (i.e. from the social). In short, diminutive reference in the literature is made to the historical routes and foundations of the movement – namely the co-operative movement or the non-profit sector. Yet this is where the conceptual grounding for social enterprise organisational theory is founded. Furthermore, as Arthur et al (2006:2) suggest there appears to be an implication and assumption that ‘social’ and ‘enterprise’ are mutually inclusive;

\(^1\) Here the assumption could be the exchange of other forms of capital into financial capital through rewarding the values of the virtues. As Tsukamoto suggests; “A firm can actively create ethical capital by nourishing a market segment of ethically high-minded stakeholders who are willing to pay, for example, for the costs of a product that is produced to higher standards than required by law.” (2007:218)
“Ten or so years ago it would have seemed like an oxymoron to amalgamate the terms social and enterprise. Since that time the concept has rapidly passed from obscurity to the status of orthodoxy.”

This leap of faith is complicated as it characterises social enterprise as a way of ‘doing’ business. Goerke (2003) warns; the competitive environment and race for profits can be destructive, particularly if service delivery is just about being more efficient and making profits at the expense of meeting community needs (Goerke 2003:319). This lead us into the second conceptualisation of social enterprise, social capital.

**Conceptualisation 2 – The Social Capital Lens**

In the United Kingdom, the strength of the social enterprise sector is seen to lie in its capacity to build social capital. This social capital is primarily seen as the local-level involvement of people in their community, whether a community of interest or a geographic neighbourhood (Defourny 2001; Pearce 2003; Spear 2001). Social capital is seen as a commitment to building community capacity, beyond the contracted outputs, and nurturing the developed of valued social networks (Westall, 2001).

Social capital in social enterprise focuses upon commitment and equity (Drayton 2005; Evers 2001; Leslie 2002). More than this, some claim that social capital is a goal of social enterprise (Amin et al. 2002; Evers 2001) rooted in a ‘relationship’ view of how to sustain a community and an emphasis on ‘socially rational’ thinking and behaviour (Ridley-Duff, 2008). Pearce (2003) identified these values as predicated upon co-operation, doing good work and trust. Murdock (2005:3) finds that;

> ‘So far the literature offers some evidence that trust is founded in values and beliefs and it is important because it facilitates collaboration, but trust depends on reciprocity and engagement’.

Spear (2001, 2006) stated that this social capital in part arises as these organisations, particularly co-operatives, are collective in nature or have representative stakeholders on their committees. Within the discourse, social capital is of value in terms of relationships with the individual social entrepreneur, relationships within a social enterprise organisation, or between an organisation and the local community. Gupta et al. (2003:
Consider social capital as the ‘trust-based community capital’ and described this as: ‘community based institutional arrangements which help in the conservation and reproduction of natural capital.’ However, Gupta et al. also makes a distinction between social and ethical capital, and model ethical capital as a sub-set of social capital. They see that within social capital there are ‘investments and institutional arrangement that may be governed by ethical norms of accountability, transparency, reciprocity and fairness to both human and non-human sentient beings.’ These they define as ‘ethical capital’.

Two questions arise here. How can norms and values of relationships within social enterprise networks be articulated? Might market forces erode these norms and values? From the dominant liberal perspective in the social entrepreneurship literature, this social (or ethical) capital appears in the form of individual social entrepreneurs, and their ability, success and effectiveness. But to account for collective forms of entrepreneurship, and also the flourishing of networks that support the efforts of individual entrepreneurs, more than ‘heroic’ or ‘charismatic’ individuals are necessary. Furthermore, while some texts support the notion that mission driven individuals can produce social results through their entrepreneurial vision and tenacity (Nicholls, 2006b), other studies finds no entrepreneurial heroes within ‘successful’ social enterprises (Seanor and Meaton, 2006), or collective forms of entrepreneurship that produce ‘better’ social and economic results when compared to the private sector (Morrison, 1991; Cato, et al 2008).

Networks allow the spread of ideas, the sharing innovative practices and problem solving knowledge. Hence, social capital, as well as, ethical capital is important for discussing how communities address these issues, and to understand how we act in informal networks as well as a wider (global) social movement. Social enterprise decision-making is complex and not solely based upon profit. How social enterprise actors develop contacts, both internal and external relationships with those outside of the group or agency is important. The potential to access resources from contact with networks outside the organisation is a key issue in the social capital literature. Fine (2001) has noted that Granovetter’s (1973; 1985) structural argument underpins much of this social capital theory; Granovetter found that economic transactions are structurally embedded in a network of social relations. Connections and ties within these networks are seen at various levels either within or between organisations (Pretty and Ward 2001). It is the
‘weak ties’ or bridging capital which are seen as essential in linking one organisation to another (Granovetter 1973; Hulgard and Spear 2006; Woolcock 1998).

Trust is one of the key themes of the social capital literature. Putnam (2001) and Coleman (1990) underscore the notion that trust is key to holding networks of people working together for a common good. The relationships within networks are seen to affect how easily new ideas and innovations are shared with others. Where there is a ‘radius of trust’, ideas pass more easily than in networks where there is little or no trust (Fukuyama 2001). Not to be overlooked, social capital may have negative effects as well as positive ones and an actor may become overly reliant on others; over-embeddedness can result in missing new opportunities and hampering innovation (Adler and Kwon 2002; Murdock 2005). This is the issue Gupta et al. (2003) highlighted in reiterating that social capital has negative implications. Moreover they make an important point that as cultural norms may not yet be well established in order to nurture co-operation and social networking, ethical capital become more important. This may be more relevant to social enterprise than initially considered as Putnam (1993), Fukuyama (1995) and Fenton et al. (1999) point out that an erosion of trust is occurring between value-based organisations and their user groups. Both Hulgard and Spear (2006) and Seanor, Bull and Ridley-Duff (2007) note that within social organisations there is considerable caution and a desire to remain separate from the private and public sectors.

The cognitive dimension of social capital describes ‘those resources providing shared representations, interpretations and systems of meaning among parties (Nahapiet and Ghoshal 1998). These are the stories and language people use to discuss ideas, shape behaviour and take actions. The language and metaphors used and the stories told in organisations give an insight into organisational culture (Cohen and Prusak 2001; Morgan 1986; Nahapiet and Ghoshal 1998). Weick (1979: 51) favours the use of metaphor as capturing characteristics especially in ‘inventing richer ways to understand and conduct business’. Particularly of note is the notion that overuse of a metaphor in an organisation may lead to overlooking new opportunities and novel solutions to problems. It is here that this factor becomes relevant as social entrepreneurship is seen as being innovative and doing things differently. Instead much of this ‘entrepreneurial’ based literature is rooted in the language of financial language and use of tools (Arthur et al. 2006; Hulgard and Spear 2006) with a tone that remains negative towards the values of
the voluntary community sector (Lohmann 1989). Boschee’s writing is indicative of this, an example being his use of the term dependency; ‘The non-profit sector has traditionally been driven by a “dependency” model, relying primarily on philanthropy, voluntarism and government subsidy, with earned income a distant fourth’ (Boschee and McClurg 2003:3). Previous experiences of social and ethical capital appear to hold little value now that the emphasis is upon earned income.

If creating and sustaining social and ethical capital is the goal or ‘primary interest’ of social enterprise, the question must be posed as to why so much attention is still focussed upon getting the sector to adopt business models rather than developing co-operation and nurturing social networks? And fundamentally, as Leadbeater (1997:24) suggests; “Social capital is the network of relationships that underpins economic partnerships and alliances. These networks depend upon a culture of co-operation, fostered by shared values and trust” in which ethical capital is undoubtedly needed to induce commitment to making them work. Within Leadbeater’s account of how social enterprises start to “get their show on the road”, there is the missing component on what attracts people to come together and share a goal – so without social and ethical capital, the show will simply never get on the road!

**Conceptualisation 3 – Ethical capital**

So what is ethical capital? Ethical capital in this context has some similarities to social capital – it is not something you can touch, you cannot see it as a physical entity – but you can see it in action, and perceive its value. Ethical capital pre-exists social capital – in order for social capital to thrive, there needs to be ethical capital in place, otherwise there would be no foundation for the bridging and bonding of social capital. Ethical capital involves morality. It is about: having and valuing a personal, group and organisational sense of fairness; questioning the behaviours of organisations and the codes of conduct; questioning the rules of the game and judgements of what is right and what is wrong; it is “the warm glow of pleasure at having done the right thing” (Maitland 1997).

What is so important about ethical capital you may ask? The power of ethical capital rivals that of social capital, it can be conceived as the ground that social capital stands on, and constitutes the principle attraction that induces many people to work in the sector by offering a sense of well-being and happiness. If social enterprises can capitalise on
this virtue and attract more (as Tim Smit has) ethically minded individuals into the sector then the model can make significant change in the world. The limitations of this perspective, however, rest on the lack of empirical data that can ever support the ‘proof’ that social enterprise and social entrepreneurs are morally superior. Of course, once recognising that ethical capital exists, it can (like social capital) be turned in to other types of capital. By way of example, the pursuit of ‘Eden’ as a morally responsible commitment to exploring co-existing environmental and human sustainability has in itself transformed both the social and financial capital of Cornwall, England.

As Tsukamoto (2005:77) suggests;

…once morality is transformed into an economic asset, corporate moral agency yields competitive advantage, increases profitability and increases survival prospects of the firm. In this respect, insufficient corporate moral agency can be analysed not as a systemic, rule-based condition of defective incentive structures but as a capital utilisation problem in firm-stakeholder interactions.”

Tsukamoto (2005) suggests that ethical capital conveys the asset of morality in an organisation. Shaw (1997) outlines one of the issues as the erosion of the moral basis of public institutions and personal ties (family, friendships, associations, groups) through the notion of the free market and self interested maximizations. Keller (2007), articulates the issue a little better and states;

“It is contended that modern business theory, as represented by the Neo classical economic paradigm, has established a moral code of business based on efficiency of outcome and the assumed link of efficiency to self-interested behaviour. The result is markets as the arbitrators of ethical outcomes, and profit maximization as the ultimate moral code” (2007:159)

Castineira (2004) argues that there is a need to appreciate that:

“Many recent cases of economic failure affecting different countries (the Argentinian crisis, the Enron and WorldCom affairs in the USA) are directly related with the lack of ethical capital, namely lack of transparency in management practices, corruption, non-compliance with agreements and juridical uncertainty. This creates a mistrust that affects international relations, investment prospects and, eventually, a nation’s development opportunities and its ability to create a moral framework that guarantees
the conditions for a dignified life in full respect of the principles of coexistence. In order to achieve this, all social players should be co-responsible for the fostering of shared fundamental values that ensure ethical practices in all fields of human activity.”

In order to theoretically explore ethical capital 3 themes are presented here – all of which are outlined to provoke response, and all which need further research to tease out the detail.

**Theme1 – Levels of ethical capital.**

In a recent paper Tsukamoto (2007) outlines 3 levels of ethical capital:

1. Passive unintended moral agency – accumulated through Adam Smith’s ‘invisible hand’ of the free market – where the accumulation of wealth and distribution achieves some level of ethical capital, such as through rising living standards. However, the core belief and responsibility is managing an organisation to maximise financial profit.

2. Passive, intended moral agency – accumulated through following the rules of the game, obeying the codes of conduct in the norms and customs of society. This rule following behaviour achieves the lowest intended moral code. Bottom end Corporate Social Responsibility falls in this level – ‘Good must be done for reason of profit’ Friedman (1970/1993). Hence, better consideration of the environment might be one example.

3. Active, intended moral agency and the creation of ethical capital. This is organisations at the top end of the Corporate Social Responsibility spectrum: Body Shop; Café Direct; Divine Chocolate and organisations that go beyond the minimum rules of market morality. Hence, profit is an outcome of ethical thinking linked to market opportunities.

Yet the 3 levels outlined by Tsukamoto fails to recognise the third sector, so this paper seeks to add a level and create into the model a higher plane; a 4th level of active, intended blended value ‘social’, ‘economic’ and ethical capital. As Ridley-Duff (2008) comments:
Instead of viewing ‘social enterprise’ as a subset of the social economy, it can be viewed as a range of business practices that proactively build economic and social capital across affected stakeholder groups. As such, it regains an ideological character (and basis) that move the definition away from ‘profit’ based definitions towards an understanding of social enterprise as the development of alternative business structures (and practices) that support socially rational objectives.

While the first three views of ethical behaviour pertain to the accumulation of ‘profitability’ in terms of economic capital, it is only at level 4 that it is re-conceptualised as a way of building social capital grounded in both social and economic rationality. It is only at level 4 that business ethics are revised to re-frame the concept so that it is measured in more than economic terms – beyond bottom line accounting, to a point of looking at what the purpose of multi-bottom lining has to offer and what is represented along the line.

Alter’s (2004) model (Figure 1), the sustainability spectrum serves well here to map the ethical capital levels across the fields representing the differences across the social and private sectors. As represented here levels 1, 2 and 3 represent the ethics of private businesses that are primarily based on economic value creation. It is the organisations that are primarily social value creators that levels of 4 and 5 pertain to that significantly changes the values base.

This 4th level, situates social enterprise in alignment with Chryssides and Kaler (1993), Stone (1995) and Hoffman (2002), by arguing that good must not be done solely for reasons of profit (as quoted in Tsukamoto 2007). Beyond this, we might postulate a fifth position that embraces the concept of ‘charity’. In its purest form, there is an attempt to remove economic thinking completely from decisions regarding social action. When
acting from a sense of charity - literally translated as ‘love’ in early texts (Morgan, 2008) – the giver receives no economic benefit from the act of giving. Expressions of this value remain embedded in Charity Law through the requirement that Trustees cannot be paid for role as governors in a Charity. It is only relatively recently that charities have had to widen their income strategies – including social enterprise – as ways of sustaining organisational missions in the current climate. The recent Charity Incorporated Company (CIO) model is a further example of the changing climate (yet the rules on remuneration for trustees remain the same).

**Theme 2 – Deconstructing the ethics in social enterprise**

The focus on ‘superior’ moral values, however, is not without some contradictions. It typically involves a shift away from the liberal focus on developing individual rights and the pursuit of self-interest, and more on utilitarian (and Marxian) arguments that “shared values” can be developed to achieve a “common good”. These communitarian commitments are grounded in the idea that ‘free’ people do not exist and that ‘rationality’ is both a _precursor_ and _outcome_ of experiential learning in a group context (Blumer, 1969; Tam, 1999). Ethical decisions, therefore, have to involve the group, not just the individual, and involve a consideration of both material and emotional gains and losses. Actions are considered more ‘moral’ if they consider impacts on both self and others (Dewey, 1957).

Communitarian philosophy, however, is divided in its attitude to the benevolence of strong cultures and normative values. There has been repeated debate over whether social engineering is progressive (Mayo, 1933; Ouchi, 1981; Peters & Waterman, 1982) or paves the way for totalitarian control and oppression (Whyte, 1957; Lukes, 1974; Kunda, 1992; Thompson and Findlay, 1999).

Following Durkheim, Collins (1997) and Tam (1999) attempt to position “liberal” communitarianism at the juncture between these two extremes. However, unitarist outlooks continue to pepper their arguments as soon as they turn their attention to business. Tam argues in a UK context that:

> …companies must learn to treat their workers, suppliers and customers, as well as their senior management and shareholders, as members of a shared community… [emphasis added]. (Tam, 1999:10):
Collins, in a US context contends that:

...the standard should be democratic organizations with a few authoritarian exceptions rather than authoritarian organizations with a few participatory management exceptions... [emphasis added] (Collins, 1997:503):

Both, however, limit their calls to various forms of representative democracy and legal reform so that recalcitrant business leaders are prodded into practising social equality. Democratic forums, they contend, will “prove” democracy as a superior way of organising – a circular argument if ever there was one. Particularly problematic is the recourse to law relying on “rational science” to support arguments for progressive social change.

The diagram below (Figure 2) attempts to unpack the notion of the 4th level in ethical capital. As is shown here, social enterprise evolves between private and charitable enterprise, as the blended balance of capital investments (economic, social, intellectual and ethical).

The theoretical perspective in Figure 2 provides some explanation for the practice of establishing separate private and charitable enterprises to pursue a social goal. The former pursues financial objectives while the latter pursues social and charitable objectives. In this situation, the contradictions between economic and social rationality are externalised: the dissonance presented by the “other” frame of reference can be ignored or marginalised when deciding on operational priorities. The application of religious ethics (grounded in ‘saintly’ behaviour) supports the refinement and pursuit of virtue ethics: both share trait theories of leadership derived from visionary and inspiring individuals. This facilitates the unproblematic transformation of business leaders into philanthropists (such as Bill Gates). While the outcomes sought may change, the style of leadership and governance that brings about these outcomes does not.
In co-operatives and new organisational forms (such as the CIC and CIO), the aim is to internalise the dissonance created by the pursuit of economic and social goals simultaneously. In this environment, democratic organisation and social ownership are gaining salience. Emergent ethical norms (from critical discourse) encourage normative control techniques. Nevertheless, the presence of democratic structures (if upheld) act as guarantor that normative values cannot dominate over in the long term: they remain open to challenge and continual renewal through discursive deliberation within the organisation.

Yet, can the ‘profit-motive’ and ‘business efficiency’ really be seen as weakening sources of ethical capital? Alternatively, could either an old or new rationality enable ethical
capital to be re-appropriated and placed within new organisational forms such as social enterprises, so that such profit can be put to use in an expanding circle (Singer, 1981) of moral commitment to society and the environment?

**Theme 3 - Moral Agency through a conventional and enforcing enterpriser or the greater good through a critical and creative moral enterpriser?**

In answering the above questions we shall build on the previous sources and develop an analytical typology through appropriation of Becker (1963) and Hart (1963).

Becker (1963) suggests that there are two sorts of moral entrepreneur within social groups, ‘rule-enforcers’ and ‘rule-creators’, with the label of ‘entrepreneur’ being adopted, because he viewed both as enterprising acts.

Given the substantive work done since on defining the entrepreneur (see Entrepreneurship Theory Practice Special Issue (Davidsson et al (Summer 2001) and Shane and Venkataraman 2000), it might be best to re-state Becker’s conceptualisation as ‘enterpriser’ so as to not do violence to that latter body of work or the spirit of Becker’s. What then does Hart have to offer here? From a utilitarian perspective, which in a particular form has sometimes been argued to be the moral framework for contemporary business and society, Hart nevertheless suggests there is *conventional morality*, which constitutes that shared by society generally and its organisations, but also *critical morality*, which stands back and asks whether such conventional morality is harmful.

Let us put Becker and Hart together with the little variation of our own for good measure. The *conventional and enforcing moral enterpriser* attempts to reproduce and even grow ethical capital, but on the basis of MacIntyre’s thesis, they really have their work cut out. Potentially in Western society then, traditional deference, bits of religious morality, a democratic ethos, and profit-driven economics all have to somehow be made to hang together. One option, like the Lipsky (1980) bureaucrat, is that they are selective with which rules and practices they try and reproduce. Perhaps an obvious tactic is to try to stick with the profit-motive and business efficiency, and lose the ethical fragments that are out of sympathy with this. Yet economists themselves (Layard, 2005) are returning to moral philosophy, precisely because the profit-motive and purchaser power became ends in themselves, detached from what utilitarianism was originally about (like other
philosophies before it in somewhat different ways) – happiness, well-being, the good life. While wealth creation makes positive difference in peoples lives up to a point, other things become important beyond this.

The critical and creative moral enterpriser has an opportunity to re-engage elements of ethical capital in new organisational contexts like social enterprises. It is a project they could undertake through a more elaborated form of naturalistic ethics, incorporating the best of virtue, utilitarian and other normative ethical theory into an understanding of ethical capital that takes into account continuity and contingency (with due acknowledgement to Hegel and Marx) in a process and praxis of moral development and change, and which could justify and bring about more commitment to greater flourishing for an ever expanding circle of life.

Conclusions

This paper has attempted to introduce the reader to the concept of ethical capital. The discussion has taken the reader through the economic lens, the social capital lens and taking forward the ethical capital lens in the conceptualisation of social enterprise. The debate, we hope, has barely started and further work is evidently required in order to fully develop this concept.

The enterprise-oriented view is of the sector delivering social projects through traditional, market mechanisms. By focusing upon income generation, which is seen to serve a social purpose, social enterprise becomes placed within a financial framework. The factors driving this approach appear based upon the shift to the ‘contracting culture’. This is a portrayal of organisations as moving towards the economic end of the spectrum, engaging in market activities – and at the mercy of the market ideology. This imagery is surely an anathema to promoting innovative social enterprise development. Rather than adopting radical social change as advocated (Bornstein 2004), social enterprise development appears to focussing upon becoming competitive businesses in a market ideology. Is this what the movement wants?
Westall and Chalkley (2007:17) argue:

‘In order to fully grasp the implications of these visions and realise the potential of social enterprise, we need to break out of our usual ways of looking at the world, particularly about the ‘natural’ business model or the narrow but hugely powerful concepts and implications of mainstream economics’

This paper answers that call and attempts to break away from our usual ways of looking at the world. Ethical capital certainly provides an alternative view to the traditions of mainstream economics. What we have attempted to unpack is the current conceptualisation of social enterprise and the current concept of ethical capital in the literature to date. The paper has outlined the three levels of moral agency and a 4th and 5th level that takes the concept to its natural end. It is here this paper moves the debate on and offers the social enterprise a more radical frame of reference.

The Neoclassical economic paradigm has a conceptualisation and pre-occupation of economic life as a search for equilibrium (Clark 1936). This search for natural order of wealth, returns, production etc formulates economic organisation as those things that could be measured and controlled, which subsequently led the ‘political economists’ to exclude those things outside of rational economics as non-economic Kapp (1950). Hence, as Becker (1976) suggests, all decisions are economic one’s. The given then is that private enterprise behaves to achieve rationality and efficiency (Shaw 1997).

The current ideology of the neoclassical economic paradigm it has been argued pursues interests towards the self and towards the erosion of the moral basis of association. The outcome leaves society with a problem of low ethical virtue. The rise of corporate social responsibility in both social and environmental terms is slowly beginning to address and meet people’s desire for a more moral way of living. This boundary shift in the rules of the game, offers some hope but as the taste buds are introduced to these virtues, the current menu of the day lacks enough ethical nutrition. Further to this, is once tasted, the consumer desires more, and more. And so an ever increasing desire for satisfying the ethical taste buds is stimulated. It is only through the social enterprise movement that can provide enough ethical capital to satisfy the consumer. So when Tim Smit suggests ‘corporate life as we know it going to be dead in thirty years time’ – this might be the kind of changing appetite of people for a more moral, virtuous and ethical lifestyle. In Eden,
this may be why Tim Smit has been able to recruit the top executives that he has. Is the decamping set to continue? Is the social enterprise movement awake to this? Is the movement ready to capitalise on such a paradigm shift? If social enterprises can capitalise on this virtue and attract more (as Tim Smit has) ethically minded individuals into the sector then the model can make significant change in the world.

This paradigm shift may well need to happen sooner rather than later, as discussed the drive of a market and managerialist culture and agenda is set to infest the sector. The concerns of the opportunities within the market are well documented in other works, but we have focused on the tensions of such an agenda and the potentially catastrophic consequences this has for the social and ethical capital foundations in society. As Keller (2007:172) warns;

“What has been lost of Adam Smith in the translation to neoclassical economics is the basis of morality and control that Smith envisioned would go hand-in-hand with market efficiency and that the goal of an economy must be the greater economic welfare of the society. In short, efficiency is not an end in itself.”

Further research is called for. If the social enterprise movement can widen the conceptualisation away from business and revenue to one that incorporates a view of fostering ethical capital, might this help re-frame and achieve the radical changes as advocated by Bornstein (2004), Drayton (2005) and Emerson and Bonini (2004)? We think so.
References


Bull, Ridley-Duff, Foster and Seanor


