Understanding Social Enterprise: Theory and Practice
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Introducing a New Textbook

This introductory article attempts to answer questions for:

1. Those in the private sector wondering if social enterprises are a threat or an opportunity
2. Those in the voluntary sector trying to work out their medium/long-term future, and whether they should engage or resist the notion of social enterprise.
3. Those in the public sector being asked to develop, support or commission work from social enterprises.
4. Those who self-define as part of the social enterprise sector, wondering how to understand themselves and describe the value of their approach to others.

In recent years, a new term - social enterprise - has been promoted throughout the world (Borzaga and Defourny, 2001). The problems surrounding its meaning can be explored by reviewing the contexts in which the term is now achieving recognition. A national economy can been conceptualised as having three sectors (Billis, 1993; Pearce, 2003). Firstly, there is an economy that supports the state, a public sector comprising state institutions as well as publicly owned and funded organisations. Secondly, there is a private economy that co-exists and competes with the state: it is comprised of businesses that enable people to earn money and make a living. Thirdly, there is a sector with organisations established by people on a voluntary basis to pursue social or community goals.

The problem with a three-sector analysis of the economy is that it tends to marginalise organisations that transgress the boundaries of these dominant definitions. For example, co-operative enterprises
(owned by employees, producers or consumers) cross the boundary between the private and voluntary sectors (Oakeshott, 1990). They often have a social or community goal, but are usually set up to negotiate and distribute social and financial benefits equitably rather than prioritise the social and financial goals of the founders (Ridley-Duff, 2002). In addition, they frequently adopt the democratic practices of the state sector by having elections for senior positions and assemblies of people who can directly question executive authority.

**The Emergence of the Third Sector**

The continued growth and development of co-operative forms of enterprise, and ‘mutual help’ as a commercial principle led to the emergence of a new term in the early 1990s - *Third Sector*. This term covers more than voluntary bodies and charities to include mutual organisations (e.g. building societies), social firms and producer, marketing and consumer co-operatives (see OFT, 2008). One social value that pervades the entire Third Sector is a concern that modern private and public sector management principles have contributed to the social exclusion of disadvantaged groups and vulnerable individuals. For some in the sector, the goal is to address (and find alternatives to) powerful political and financial interests that disempower citizens (Morrison, 1991; EAO, 2008). Many Third Sector organisations, therefore, share a common goal of reducing social exclusion. They may do this in a variety of ways: by providing services more cheaply to disadvantaged groups; by using collective bargaining power to negotiate access to scarce or expensive resources; by organising themselves in a way that enfranchises and empowers individual members (and gives them a collective political voice); by adopting traditional approaches that redistribute surplus wealth to disadvantaged groups through charitable practices and organisations.

The identification and growth of the Third Sector has been accelerated by changes in the public sector. Since the early 1980s, there has been a shift away from welfare through state institutions and increased use of agencies and contractors (Chandler, 2008). The concept of *New Public Management* underpins a commercialisation agenda (attempts by government to make greater use
of markets and private sector thinking in public service delivery to ‘save’ money). Accompanying this is the contentious belief that business practices and managerial solutions will improve the ‘performance’ of both the public and voluntary sectors (Paton, 2006; Chandler, 2008). Given that many in the Third Sector regard private and public sector management principles as the cause of social exclusion, it is no surprise that there is resistance to the idea that the same techniques can solve contemporary social problems.

Nevertheless, it is this thinking that drives change in the UK National Health Service (NHS). As in other parts of the world, the NHS exemplifies the trend towards a “contracting culture” in which grants and state funding are replaced by commercial contracts for service delivery. So, in recent years, the boundaries between the private and public sector (in terms of market thinking and managerial practices) have started to blur traditional distinctions between different sectors of the economy (Bull, 2006, 2007). Secondly, the emergence of radical business alternatives with a strong social orientation, democratic organisation, and positive attitude to profitable trading has led to a new language that describes relationships and organisation forms that bridge the boundaries between sectors (Seanor, Bull and Ridley-Duff, 2007).

**Social Enterprise**

In the late 1990s, as a director of Computercraft Ltd, Rory played a small role in discussions to establish a new business support agency. Around the table were support and trading organisations from the co-operative sector (ICOM, Poptel and Computercraft) and representatives from public sector training and enterprise councils (TECs). All the parties were looking for an idea (and name) that captured the goals for a new support agency. They decided on the name Social Enterprise London. Poptel (a phone co-operative) and Computercraft (an IT co-operative) provided political support and organisational know-how. The TECs and ICOM provided the same, plus assets and funding streams that enabled Social Enterprise London to establish itself (SEL, 2008).
Whether this is the first organisation to systematically use and promote the term ‘social enterprise’ throughout the UK is unclear, but the role of Social Enterprise London in helping to bring the concept (and language) to public consciousness is not in doubt. It helped to establish the first undergraduate Social Enterprise degree courses at the University of East London (UEL, 2008) as well as the first Social Enterprise Journal that is now owned and published by Emerald Publishing (JMU, 2008). Its first Chief Executive (Jonathan Bland) went on to head the sector’s leading political organisation, the Social Enterprise Coalition.

As a result of their (and others) agency, “social enterprise” has started to spread throughout our culture. The appeal of the term across the political spectrum is not only the reason why many new relationships are being forged, but also the reason for confusion and competition over its meaning and nature. By 2008, the term “social enterprise” had been appropriated by (and applied to) four distinct groups:

A  Charities and voluntary groups that are embracing a ‘contracting culture’ by tendering for contracts.

B  Charities and voluntary groups that establish trading operations to generate income for their social missions.

C  Co-operatives / social firms that tackle social exclusion by adopting ‘bottom-up’ and pluralist approaches to governance and human resource management.

D  Businesses that invest or share their surpluses in a ‘public interest’ or ‘fair trade’ enterprise.

Three of these contexts (A, B and C) are typically linked to developments in the Third Sector (community businesses, social firms, voluntary groups, charities, co-operatives, credit unions and mutual societies). The last of these (D) is increasingly linked to two other developments. Firstly, there is New Public Management that seeks to reverse the post-WW2 policy regarding the state’s
role in the delivery of education, health and social services. Secondly, there are private sector led
corporate social responsibility initiatives that create partnerships and joint projects involving
stakeholders from more than one sector (BITC, 2008).

**Confusion and Competition**

As a result, the term ‘social enterprise’ has become highly contested. Advocates for each of these
groups may, or may not, recognise the other parties as legitimate social enterprises. This is
experienced most sharply when organisations trading for a social purpose, or individual social
entrepreneurs, are rejected by social enterprise support agencies on the grounds that they do not
organise their activities in a sufficiently transparent way (i.e. do not adopt the charity model), or are
trading too much with commercial organisations for ‘private’ gain (i.e. using too many private
business techniques).

As a way through these conceptual difficulties, it is helpful to examine how theories of social
enterprise are grouped into two competing perspectives (Seanor, Bull and Ridley-Duff, 2007).
Firstly, there are those that conceive social enterprises as trading organisations sitting in the middle
of a continuum between the pursuit of a social mission (charitable) and trading in a market
(private). The issue here (for those supporting their development) is whether they are sufficiently
social and charitable in their organisation and trading purposes.

Another perspective, however, breaks out of this linear mode of thinking and views social enterprise
as a cross-sector trading organisation or activity (Morgan, 2008) capable of rebuilding and
developing social capital where this has been depleted by contemporary political and economic
thinking (Laville and Nyssens, 2001). As such it emerges in the boundaries between the public,
private and voluntary sectors to address the shortcomings of each (Nyssens, 2006; Ridley-Duff,
2008). Holding these organisations up to the norms and ‘best practice’ of charitable, private or
public enterprise at best obscures, at worst devalues, their potential. It not only creates a mindset
incapable of recognising their innovative approach, but also has the potential to stifle it. For this reason, the criteria used to determine what is and is not “social enterprise” will remain a key policy debate at local, national and international levels. While resources are being allocated to the sector, there is financial and political advantage in monopolising the language and definitions being used.

Nowhere is irony more evident than in the employee-ownership sector. Despite this sector's active involvement in the formation of Social Enterprise London, one of its leading lobby organisations (Employee Ownership Association) has now started to articulate an identity based on "co-ownership" because their members are marginalised in social enterprise policy making (see Knell, 2008). The recent All Party Parliamentary Report on Employee Ownership makes this clear in repeated pleas for political recognition "comparable" to the social enterprise sector. In this report, the language reflects an agenda based on "the combination of the co-ownership model with social enterprise philosophy..." (Knell, 2008:15). Unsurprisingly, much of this debate takes place against the backdrop of health sector reforms, with various associations seeking to legitimate their members approach to "social business" and increase their credibility in new markets for socially enterprising solutions (Black and Nicholls, 2004).

The trend is towards recognising that social enterprise has an ideal type that is aspirational rather than fully realised: a multi-stakeholder co-operative or charitable business with a clear social mission, inclusive system of governance and socialised ownership (Pearce, 2003; Nichols, 2006; Ridley-Duff, 2008). As such it represents a new chapter in the philosophy of business and organisation development generally. Entrepreneurial goals frequently, but do not always, include attempts to erode the barriers between ‘governors’ and ‘governed’ (‘directors’ and ‘employees’ / ‘trustees’ and ‘staff’) in order to increase responsiveness and democratic accountability both internally and externally. At the same time, there is a renewed emphasis on trading strength in order to build sustainable resources that impact positively on the lives of multiple stakeholders. In
this guise, social enterprise moves beyond another form of charity in which wealthy philanthropists or concerned individuals use their wealth, time, commitment and traditional business experience to fund solutions to social problems (Nicholls, 2006). It becomes an ideology for proactively nurturing wealth creation in a variety of forms by groups of people committed to social inclusion, and who embed democratic principles in their management practices, service delivery and product designs (SEC, 2008).

Social enterprise is a complex discourse, embracing language, concepts and practices in:

- enterprises that bridge the boundaries between the private and voluntary sectors (e.g. trading charities and mutual societies).
- enterprises that bridge the boundaries between the private and government sectors (e.g. housing associations and partnerships in the Health Sector).
- enterprises that bridge the boundaries between government and voluntary sectors (e.g. enterprise / employment support services provided under contract).
- enterprises that internalise a social orientation, democratic governance and entrepreneurial trading (e.g. co-operatives / employee-owned / co-owned businesses).

The proposed textbook by Rory Ridley-Duff, Mike Bull and Pam Seanor will explore how this heterogeneity has come about, and how practitioners can use new knowledge to advance the practice of social enterprise. Focussed on the UK, but drawing extensively on international examples and case studies to illustrate theory, the book will compare and contrast perspectives on social enterprise emerging amongst practitioners, consultants, academics and policy makers.

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References