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Communitarian Perspectives on Social Enterprise

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Abstract

Concepts of social enterprise have been debated repeatedly, and continue to cause confusion. In this paper, a meta-theoretical framework is developed through discussion of individualist and communitarian philosophy. Philosophers from both traditions build social theories that emphasise either consensus (a unitarist outlook) or diversity (a pluralist outlook). The various discourses in corporate governance reflect these assumptions and create four distinct approaches that impact on the relationship between capital and labour. In rejecting the traditional discourse of private enterprise, social enterprises have adopted other approaches to tackle social exclusion, each derived from different underlying beliefs about the purpose of enterprise and the nature of governance. The theoretical framework offers a way to understand the diversity found within the sector, including the newly constituted Community Interest Company (CIC).

Dr Rory Ridley-Duff is a writer/consultant/lecturer whose doctoral research establishes how friendship, courtship and parental interests shape entrepreneurship and systems of governance. His research into social enterprise evolved out of directorships in two employee-controlled businesses combined with 15 years of consultancy work in the social economy. For his doctoral research, he undertook a critical ethnography while assisting a private company to become an employee-owned business. He has also worked with social entrepreneurs on the start up of charitable and trading organisations.

Introduction

Social enterprise is being touted as the economic engine of the future (Harding, 2004) as well as a conceptual model for social responsibility (Francesco, 2005). As the movement increases its international appeal and credentials (Borzaga and Defourny, 2001; Spear and Bidet, 2005; Vidal, 2005) debate persists regarding the boundary of the social enterprise sector and the nature of social entrepreneurship (Borzaga and Santuari, 2003; Dees and Anderson, 2003; Harding, 2004). In the UK, government and policy unit calls for asset-locks and a "not-for-profit" orientation (DTI, 2002, 2003; Haugh, 2005) are contrasted by entrepreneurial interest in surplus sharing and a "more-than-profit" orientation (Brown, 2004; Ridley-Duff, 2004; Allen, 2005)[1]. While the former is preoccupied with retention of surpluses within the enterprise, the latter argue for the distribution of surpluses to all stakeholders in order to create sustainable social and economic democracy.

In section 1, I outline individualist and communitarian social theories that have influenced ideas about governance. In individualist theory, people are conceptualised as autonomous and rational, capable of developing their cognitive abilities to achieve intellectual freedom. Communitarian philosophy offers an alternative way to understand people, as embedded within - and penetrated by - an array of cultural assumptions and knowledge. Both individualist and communitarian theory, however, contain advocates who take a unitarist (consensus) or pluralist (diversity) outlook. Out of these differences, a meta-theory is constructed that explains the diversity of approaches.

In section 2, I examine the heritage and evolution of corporate governance discourses to reveal how arguments regarding the role of ownership and control are constructed. In section 3, these are examined in light of the ongoing debate about the definition and purpose of social enterprise, particularly the newly constituted Community Interest Company (CIC) form. In reviewing current studies, I contend that enduring impacts are most likely when organisations with a communitarian outlook adopt a pluralist approach to social organisation.

1. Philosophies of Social Organisation

Individualist philosophy regards truth as a private thought process where people separate themselves from the world and think rationally about it. As autonomous individuals, decisions are - or should be - based on rational self-interest, while the application of rationality leads to "absolute" or "universal" truths.

From this stance philosophers have suggested quite different types of ideal society. Hobbes (1948) argues that individual self-interest leads to conflict and a "state of war" as part of his justification for sovereign powers that impose order and control. Smith (1776), on the other hand, regards the pursuit of self-interest as something that contributes to a common good – an "invisible hand" where equilibrium between producers and suppliers brings about the most good for the most people. The resulting society – in which he envisaged free-traders in abundance – distributes economic power widely and provides a blue-print for social organisation in public and private organisations that observe a framework of universal rights (Friedman, 1962; Rawls, 1999, 2001)

Philosophers from the empiricist tradition, while accepting an individualist orientation, disagree that ‘pure’ thought is possible. Hume, for example, departed from the notion that the individual is capable of ‘pure’ reason (Hume, 1749), and argued that reason was a product of interacting with the world. Throughout the twentieth century, various philosophers have argued that we evolve through constant interaction with other people and our physical environment (Giddens, 1984; Cladis, 1992; Gaus, 2003).

Communitarian philosophy has consolidated the position that rights and freedoms are cultural constructs and have specific meanings to members of a particular society (or organisation). In contrast to individualist thought, communitarians focus less on the development of individual rights and the pursuit of self-interest and more on utilitarian arguments that “shared values” can be developed to achieve a “common good”.

The logical development of this argument is that personal identity is socially constructed and that ‘best practice’ is a cultural rather than an absolute standard. Following Durkheim, Giddens (1984, 1990) contends that we recursively evolve our social structures. Rawls’ principles are reinterpreted as the outcome of a political process. They are also bound to, and reflect, the dominant ideas at a particular point in time. As such, universal rights are not possible, even if they endure in a particular culture for a period of time.

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 brings about emancipation (Mayo, 1933; Ouchi, 1981; Peters & Waterman, 1982) or paves the way for totalitarian control and oppression (Whyte, 1956; Lukes, 1974; Kunda, 1992; Kasmir, 1996; Thompson and Findlay, 1999).

Collins (1997) and Tam (1999) responded by attempting to create a “liberal” communitarianism at the juncture between conservative and liberal thinking. Both, however, limit their calls to various forms of representative democracy and legal reform so that recalcitrant business leaders are prodded into practising equality. Democratic forums, they contend, will “prove” democracy as a superior way of organising, something that others have argued is an alternative form of authoritarianism through the dictatorship of the majority (for both arguments see Lutz, 1997, 2000; Skoble, 1994).

There is, however, another communitarian tradition. At the International in 1872, anarchists frustrated at the class and state control arguments of Marxists left the coalition to advocate pluralist forms of organisation that did not rely on the state. Their work was forgotten after Schumpeter’s treatise on democratic organisation, but their views survived through the cooperative movement’s attachment to collective organisation and community-based control (see Schumpeter, 1942; Rothschild and Allen-Whitt, 1986).

The argument here is that sustainable social organisation evolves out of *equitable* relationships (Ward, 1966), with accidental innovation and experimentation playing a significant role. Careful studies of enduring companies that are “build to last” (Collins and Porras, 2000) or which make the transition from “good-to-great” (Collins, 2001) support the view that social capital (Coleman, 1988; Evers, 2001) is important to sustainable businesses regardless of the economic sector in which they develop or the philosophy that drives their development. Sustainable companies (and economies) are built slowly by groups of people who collaborate over many years and not through the deliberate agency of visionary leaders or charismatic entrepreneurs. Collins (2001) substantive study of the 11 most improved companies on the US stock exchange found a *negative correlation* between charismatic leaders and sustainability.

There are four philosophical standpoints that embody different ideals in governance. In practice, organisation leaders will adopt positions along a continuum and may evolve their approach over time or take different approaches in different contexts. In periods of instability, they may even switch approaches to meet environmental challenges. The four ideals, however, can be summarised as shown in Table 1:

Table 1 - A Meta-Theoretical View of Organisation Governance

	Unitarism	***Pluralism***
Individualism Identity is individual	Governance by a sovereign who imposes their values to provide an equitable system of governance. Rules are created to impose social order, allocate responsibilities and adjudicate conflicts between subjects.	Governance that accommodates conflict through individual rights and discursive democracy. Balance is achieved through democratic control (in social life) and market mechanisms (in economic life).
Identity is social ***Communitarianism***	Governance by an elite able to create consensus. Rules reflect the shared values of a political elite who allocate responsibilities and adjudicate disputes according to their perception of collective interests. Elites marginalise minority points of views.	Governance that accommodates conflict through discursive democracy to determine political rights and responsibilities of individuals within collective structures. Balance is achieved in both social and economic life through a mixture of participatory and representative democracy.

In the next section, I examine the dominant discourses in business and contrast this with emergent pluralist alternatives. In section 3, the impact on contemporary debates about the purpose and nature of social enterprise is discussed.

2. Corporate Governance

Each outlook applies a different body of knowledge. Not only do each adopt different conceptions of the "governed", they also adopt different criteria for measuring their effectiveness and efficiency (see Berry, Broadbent and Otley, 1995). Long standing support for entrepreneurial cultures in Anglo-American countries is reflected in contemporary guidelines on corporate governance (see Cadbury, 1992; FSA, 1998, 2003; ICAEW, 1999; IFAC, 2003; Monks and Minow, 2004). The discourse assumes it is desirable to have a distinction between governors (shareholders, directors and senior managers) and the governed (supervisors / technical / manual workers).

Despite a focus on the long-running tension between capital and labour, a much quieter (but no less significant) debate has been growing amongst those who question whether such divisions are inevitable. Some of these arguments emerge in debates about the nature of *social enterprise,* a term whose definition remains as vague as *private enterprise*, but which embodies the notion that trading activity can bring about progressive social change by addressing issues of social exclusion. One popular definition is promoted by the Social Enterprise Coalition:

> *A social enterprise is not defined by its legal status but by its nature: its social aims and outcomes; the basis on which its social mission is embedded in its structure and governance; and the way it uses the profits it generates through trading activities.*
>
> (NEF / SAS[2], 2004:8)

While this definition is helpful, it does not make links between philosophical belief and different approaches to enterprise. Let me, therefore, outline the dominant discourse in business and contrast it with emergent alternatives.

The Dominant Discourse

Monks and Minow (2004:8-9) review a wide range of definitions from Eisenberg's view of the corporation as an "instrument through which capital is assembled…[for the] gain of the corporation's owners, that is, the shareholders", through to Bierce's view of the corporation as "an ingenious device for obtaining individual profit without individual responsibility"! Their own definition is that corporate governance is:

> *…a mechanism established to allow different parties to contribute capital, expertise, and labor, for the maximum benefit of all of them. The investor gets the chance to participate in profits of the enterprise without taking responsibility for operations. The management gets the chance to run the company without taking responsibility of personally providing the funds.*

Although Monks and Minow acknowledge "labor" in their definition, their text reads as if "management" is the only type of labour within the scope of analysis. Little regard is given to the labour of employees below management level, or the role of customers and suppliers in governance. While 'best practice' requires audit committees to make provision for whistleblowing (Smith, 2003) employees have only limited protection under the Public Interest Disclosure Act 1998. The risks to both corporation from making provision, and to employees from exercising their right to whistleblow, continues to generate debate about its effectiveness (see Vinten, 1994; Lewis, 2001)

Other theorists see the purpose of business differently (see Mayer, 1997; Patterson, 2001). Coad and Cullen (2001, 2004) explore the sharp contrast between the narrow scope of discussion in the Cadbury, Hampel and Turnbull reports with an evolutionary view of economics. This regards economic activity as an accidental and institutional activity, only sometimes driven by rationality. It springs from habits of mind and thought (in the form of cultural norms, rituals and institutionalised behaviours) retained because of their past ability to sustain a community. The primacy of shareholder interest is recast as a habit of thought (rather than a rational choice) perpetuated through mimetic processes.

The recent evolution of the (UK) Combined Code has increased the scope of discussion from financial management (Cadbury) to directors remuneration (Greenbury) to principles of good governance (Hampel), before widening the issues further to consider systems of internal control (Turnbull), institutional shareholders (Myners), auditors (Smith) and non-executive directors (Higgs). Taken as a whole, however, the Combined Code is still inwards looking, seeing directors as an island within the broader enterprise, empowered to review each others' performance, subject only to external control from shareholders or regulators (see FSA, 2003).

In the literature on social enterprise, Wallace (2005) outlines how the dominant discourse has affected government policy, but stands at odds with the aspirations and views of social entrepreneurs. Policy in the UK, therefore, is oriented toward market solutions, trading income and celebration of the visionary entrepreneur, rather than mixed-mode approaches to funding and collaborative approaches in governance. The consultation on the Community Interest Company (CIC) included discussion of democratic social relations (DTI, 2003), but the final legislation takes the default position that directors should be accountable primarily to the regulator and limits accountability to both shareholders and stakeholders.

Previous debates on the viability and efficacy of stakeholder control, as well as European examples integrating stakeholder perspectives into corporate governance (Turnbull, 1995; Vinten, 2001; Wieland, 2005), have not yet shifted thinking in the UK away from the primacy of investor control and enlightened shareholder value (Friedman, 1962; Sternberg, 1998; DTI, 2005). This reinforces the prevailing view that a dominant group have an automatic right to involvement in governance (entrepreneurs, regulators and funders), and also that governance is about performance and conformance rather than developing a balanced set of relationships that will sustain a community (IFAC, 2003). In addition to this, there is a *political* argument that business should *not* be political because it is only a financial and economic activity. This argument, which I will contest later, is that moral and political considerations are for politicians, not businesses, and that if a company is *financially* successful then all stakeholders will benefit.

Since the 1980s, there have been managerial discourses that embrace collaboration rather than authority. Johnson (2006) tracks the arguments for an end to top-down authority relations. Each represents an incremental shift away from individualist perspectives. Nevertheless, the unitarist framework remains – even when accompanied by democratic rhetoric – resulting in presumptions that a meritocracy, headed by an elite, are still entitled to set the rules regarding who can, and cannot, participate in decisions (see Michels, 1961; Collins, 2001; Parker, 2002).

Critics of meritocracy point to the persistent research finding that oligarchies develop and become oppressive. Anthropological studies suggest they undermine individuals capacity to act in morally responsible ways. Fearful of rejection or exclusion, organisation members refrain from voicing legitimate concerns and are reluctant to exercise moral judgement in their daily work. As a result emotional withdrawal, hidden conflict, silent sabotage, depression and despair all contribute to deterioration across a social network, organisation or society (see Whyte, 1956; Kunda, 1992; Kotter and Heskett, 1992; Willmott, 1993; Griseri, 1998; Thompson and Findlay, 1999; Ridley-Duff, 2005).

The Beginnings of Pluralism

The emergence of a social enterprise sector can be viewed as the outcome of a long historical process, a movement that embraces human endeavour as social, as well as rational, in its nature. Humans are seen as capable of developing enterprises that are socio-economic in their commitments, and which can be governed by Habermasian principles that guarantee participation in opinion forming and decision-making (Tonnies, 1952; Habermas, 1974; Etzioni, 1988; Laville and Nyssens, 2001).

Consideration of a fundamentally different relationship between capital and labour can be traced back over two centuries. Gates (1998) found profit sharing arrangements between workers and owners as far back as 1795, but the first coherent critique of capitalist relations of production, and the articulation of an alternative gathered pace in the 1820s and 30s through the activities of Robert Owen and his followers. Owen abhorred the "atomisation" that developed in his factories, and was also a critic of changes to the family brought about by industrialisation that separated women and men in daily life.

Owen argued for a co-operative ethic based on community ownership of property. The inherent ambiguity in this statement created disagreement amongst Owen's followers over the boundary of the "community" and also whether common ownership should extend beyond the workplace into the private sphere.

In contrast to the dominant discourse, the principle-agent relationship (Jensen and Meckling, 1976) is altered from one between shareholders and directors, to one between managers and workers (in producer co-ops), managers and suppliers (agricultural or marketing co-ops) or managers and customers (in consumer co-operatives). Owen's ideas have been enduring through an altered attitude to entrepreneurship that is rooted in collective action rather than individual vision and hierarchical control (see Harrison, 1969; Marx, 1984).

Co-operatives, however, have been repeatedly criticised for their limited ability to generate an entrepreneurial culture (Cornforth, 1988), inability to sustain inward investment (Vanek, 1977; Major, 1996, 1998; Major and Boby, 2000) and a limited ability and/or desire to grow (Rothschild and Whitt, 1986; Ridley-Duff, 2002). Cornforth, among others, argues that it is not the co-operative *per se* that is at fault, but the co-operative that isolates itself from conventional financial instruments (i.e. asset-locked organisations that do not allow members to purchase equity shares). Even so, the co-operative as a political project in the UK was tainted in political circles after failed attempts by Labour government minister, Tony Benn, to convert three insolvent companies into co-operatives during the 1970s (see Oakeshott, 1990; Whyte and Whyte, 1991; Turnbull, 1994; Cheney, 1999).

The Logic of Pluralism

In Spain and Northern Italy some local economies are now dominated by co-operative companies, retailers, schools and universities (see Oakeshott, 1990; Holmstrom, 1993; Francesco, 2005). The MCC, in Mondragon (Spain), provides an example of sustained economic and social development based on co-operative principles (Cheney, 1999). One of the most interesting departures is the rejection of the employer/employee relationship[3] (see Ellerman, 1990) and a system of governance that distributes power to separate bodies representing worker, manager and owner interests (see Turnbull, 1994; Ridley-Duff, 2004). The US/UK employee share ownership plans (ESOPs) also establish a pluralist model of individual ownership (see Gates 1998; Major and Boby 2000) where the legitimacy of worker ownership is accepted alongside existing arrangements for external investors.

In Europe, particularly in countries like France, Italy and Spain, where Co-operative Law has removed ambiguities in members' governance and employment rights, there have been periods of strong growth (Oakeshott, 1990; Holmstrom, 1993; Borzaga and Defourny, 2001). In the UK, however, co-operative members are still governed by several bodies of law, escalating the cost of due diligence and employment disputes (Ridley-Duff, 2002). Neither the recent introduction of the CIC, or proposed revisions to Industrial and Provident Societies Act (IPS), resolves these issues. As a result, the sector remains smaller than its continental and North American counterparts (Spear, 2001).

Taken together, however, the drive to accommodate more stakeholders offers new models based on the principle of pluralism *within* the organisation, not simply through product and financial markets. Others have adapted ideas from Mondragon to suit different regional and national frameworks (Gates, 1998; Cheney, 1999) that acknowledge the interests of investors, managers and workers through different relationships to the enterprise, but a common interest in creating organisations that generate and distribute financial surpluses.

The dual pressure to accommodate investors into co-operative corporate governance and employees into private ownership has resulted in an explosion of ownership and control models that operate on pluralist lines. SCEDU [4] adopted a model called NewCo, in which up to four stakeholder groups are recognised[5] (entrepreneurs, employees, corporate supporters and investors). Social Firms UK recommends a similar pluralist model that mixes variable yield equity for founder members and employees with preference shares for institutional investors[6].

Even the strongholds of Owenite common ownership (ICOM[7] and Cooperative Group) responded by introducing a governance framework to accommodate multiple-stakeholders. ICOM's Blue 3 rules, introduced in 1997, allowed for two classes of share, "profit shares" for investors and "voting shares" for members (see Ridley-Duff, 2002). The Co-operative Group also established a multi-stakeholder governance model for its national programme of childcare centres that distributes control rights while protecting shared assets through common ownership[8].

All these models challenge prevailing views on who controls the enterprise and how surplus value should be distributed amongst stakeholders. They also challenge the reliance in the Combined Code on 'independent' directors to make 'rational' judgements to protect shareholder interests and favour *internalisation* of conflicts and socio-economic thinking guided by corporate debate (Etzioni, 1988).

The direction of change is clear. Originally, rights were accorded to entrepreneurs and individual investors ("property owning democracy"). This conception of democracy is still prevalent in the business community – that entrepreneurial and investor rights are the foundation of democracy.

However, alternative views became possible once joint-stock and risk sharing were allowed in Company Law. This allowed the formation of elites who shared risk, and which may consult without giving up ownership or control rights ("elitist democracy"). The formalisation of Co-operative Law (in other countries, but not yet in the UK) legitimises commercial trading activity where companies operate a one-member, one-vote system of control ("egalitarian democracy"). Most recently, social entrepreneurs have adapted Company Law to create enterprises that allow direct democratic control of representatives speaking on behalf of different interest groups ("stakeholder democracy").

Each of these positions construct democratic legitimacy in a different way:

Table 2 - Democratic Legitimacy in Business Practice

	Unitarism Society is best served by creating consensus	***Pluralism*** Society is best served by encouraging diversity
Individualism	Entrepreneur-owned and controlled enterprise. Entrepreneur selects senior management. (Property-based Democracy)	One-member / one-vote societies, associations, democratic businesses and cooperatives. Directors/Executive officers elected by membership. (Egalitarian Democracy)
Communitarianism	Board or Trustee controlled organisations dominated by one stakeholder group or self-selecting elite. Senior managers are appointed by the elite. (Elitist Democracy)	Multi-stakeholder ownership and recognition of interest groups. Executive positions controlled by stakeholder groups and subject to executive and/or direct democratic control. (Stakeholder Democracy)

In the next section, I examine how these discourses and constructions of democracy have influenced contemporary debate about the social enterprise movement.

3. The Emergence of Social Enterprise

Concepts of social enterprise oriented towards public sector policy (DTI 2002, 2003; Haugh, 2005) differ from those with a more entrepreneurial orientation (see NEF/SAS, 2004; Allen, 2005). The DTI definitions focus on social purpose and see no contradiction between this and the existing provisions of Company Law (see CIC regulations, 2005). The emergence of social enterprise has been supported by the development of the Community Interest Company (CIC). As at 9th May 2006, 240 companies had registered as a CIC and these include educational and health organisations, housing groups, theatre and media companies, consultancies, car sharing organisations, art groups, golf courses, farming consortia, shops and cafes, magazines, recycling and energy and transport organisations.[9] The only fundamentally different requirement for a CIC – over and above a "normal" company – is that the directors must convince the regulator that trading activities support a *bona fide* social venture, monitored through a short report each year.

In some ways, the CIC company form introduced in July 2005 is even *more* unitarist than its private sector counterpart. Companies can be limited by Guarantee or by Shares. Either way, external investors cannot individually hold more than 25% of voting shares. While this removes overall control from a single stakeholder, it transfers collective power to the board of directors. Stakeholder governance is not a requirement so directors are answerable (in law) only to the regulator unless specific constitutional provisions are made in the Memorandum and Articles. In effect, a legal framework has been created in which the executive – by default at least – is unrestrained by either stakeholder democracy or shareholder democracy.

Can this be considered a *community interest* company? Intellectually, the CIC places faith in the integrity of social entrepreneurs to act in the public interest – a highly *individualist* assumption that "good" people can be found to act in the interests of wider society. There are, however, problems with this assumption. What constitutes the common good changes with the political wind and the aspirations of entrepreneurs (Ridley-Duff, 2005). Social enterprises are deliberately political (in as much as they intend to have more than economic impacts) so entrepreneurs may find themselves at odds with the political thinking of public administrators (Wallace, 2005).

The final provisions for CIC governance reflect the influence of public, charitable and philanthropic funders during consultation. These marginalized the views of social entrepreneurs regarding democratic governance and surplus sharing models (DTI, 2003; Wallace, 2005)[10]. Has the law been framed so that a government can control the execution of political policy through the activities of social enterprises? Is this why the law makes substantive provision for directors' accountability to the regulator but does not require them to be accountable to their own stakeholders? Or is this an expression in the social enterprise sector of the dominant governance discourse, namely that control rights are reserved for the suppliers of capital and those who bring the enterprise into being (Davies, 2002)? The provisions within the legislation that allow a regulator (without the need to go to court) to intervene into an "errant" social enterprise pave the way for political interference in the running of social enterprises.

The Asset Lock

For Haugh (2005:3) "social enterprises are prevented from distributing their profits to those who exercise control over them". Certainly, this appears to be the wish of the UK government through the statutory requirement for an "asset lock" if enterprises want to qualify as a CIC. However, as Vanek (1977) illustrated through extensive study of the Yugoslav economy, asset locks discourage the inward investment necessary for long-term sustainability. Executive managers (or the workforce in co-operatives) respond by changing the wage policy to extract surplus value in response to devaluation of their labour contribution (Major and Boby, 2000). The lack of tradable equity can reduce the emotional commitment of investors and employees to the future of the business unless alternative surplus sharing arrangements are institutionalised (see Cornforth, 1988, 1995; Conyon and Freeman, 2001; Ridley-Duff, 2002).

For others, however, an asset lock is inconsistent with conceptions of social enterprise (Brown, 2004). As Allen (2005:57) argues, a key characteristic of social enterprise is the way that "ownership structures based on participation by stakeholder groups" is also matched by arrangements where "profits are distributed …to stakeholders or used for the benefit of the community." Such approaches have been enduringly successful in many countries (see Oakeshott, 1990; Ridley-Duff, 2005).

What constitutes a social enterprise, therefore, is plagued by the same unitarist/pluralist debate identified earlier. Those who want to invest their money through a social entrepreneur and control the purposes for which it can be used adopt a unitarist view of governance. From this perspective, employees and managers must be controlled and prevented from extracting surplus value. However, for others the very *purpose* of a social enterprise is to create economic and social democracy through changed social relationships. For these enterprises, corporate governance ensures that managers and employees are empowered to determine how trading surpluses can be distributed and reinvested (including to members as individuals).

As Defourny argues (2004), social enterprises now embrace terrain previously occupied by co-operative and non-profit organisations, but also potentially supersede both by replacing the principle of hegemony of one stakeholder group over another by adding to the argument for a stakeholder perspective in both ownership and control (compare Vinten, 2001; Wieland, 2005). The temptation is to see social enterprise as a subset of the social economy, a small part of one economic sector that can deliver social policy objectives. A more ambitious view, however, is that social enterprise can potentially integrate economic and social ways of thinking to produce a more effective business form (Etzioni, 1988; Harding, 2004; Ridley-Duff, 2005).

Social enterprise, therefore, can be viewed as a philosophical departure from the past that will underpin a new way of doing business. As such, its success may challenge the rationalist bureaucracies of both big-business and government. The intellectual challenge of the social enterprise movement is how to extend individualist thinking beyond financial transactions, and the visionary entrepreneur, into the social fabric and interpersonal relationships *within* an organisation. If successful, people will be able to exercise greater choice over the way they work (and what they produce) to deliver the communitarian outcomes that hierarchical organisation and unitarist forms of control have failed to deliver (see Gates, 1998).

Summary

In this paper, I have examined differences between individualist and communitarian views of social organisation to explore how corporate governance is affected by beliefs about social identity, consensus and diversity. The prevailing discourse prioritises shareholder interests, and limits discussion to the relationships between shareholders, directors and senior managers.

Viable alternatives exist, however. Each viable alternative has its own logic rooted in a different philosophical tradition. Firstly, there are views rooted in the concept of meritocracy whereby bureaucratic control of the organisation operates through the active generation of consensus, rules and procedures. This finds expression in unitarist approaches to corporate governance that grant power to a managerial elite. The argument outlined here, however, is that unitarist outlooks – while sometimes adopting democratic rhetoric and benefiting from short-term exercises in consultation – are still based on authoritarian presumptions that degrade effectiveness over the longer term.

The new business form – the CIC - does not require by default that the directors give regard either to the wishes of funders (although influence may be brought to bear) or the wishes of employees and beneficiaries. In short, a naïve (individualist) faith is placed in the "goodness" of social entrepreneurs to create ethical businesses that will promote the common good. They are hierarchically controlled through the agency of the "good" regulator, rather than democratically controlled by their own stakeholders and retain a unitarist orientation.

In contrast to this, I outlined communitarian arguments for pluralist forms of corporate governance as a proactive response to social issues. The co-operative form of governance, originally established to entrench the power of one stakeholder group, is evolving into multi-stakeholder democracy – forms of governance that accommodate different interests and relationships to the enterprise. These discourses are finding expression in ownership and control arrangements that enfranchise employees, customers and suppliers (including suppliers of capital) so that surplus sharing and democratic debate induce the emotional and financial commitment for sustainable "success".

The way we approach enterprise, and enterprise governance, is rooted in our most deeply held beliefs about people, the purpose and nature of social organisation, and our attitude towards the legitimacy of interventions to bring about social change. In setting out this meta-theoretical framework, it is possible to see that both unitarists and pluralists tackle social exclusion in different ways: unitarists, by establishing organisations with a remit to tackle exclusion from participation in a market economy through planned interventions; pluralists, by instituting organisations that deliberately enfranchise excluded groups by bringing them *into their governance framework* so that they can participate not only in a market economy, but also in the deliberation processes that shape their future. This second approach resonates with Etzioni's "moral dimension" (Etzioni, 1988) through the promotion of a decision-making model that moves beyond the limitations of logical-empirical thinking and accepts the legitimacy of emotional-social thinking. Future research into social enterprise governance can examine this perspective more closely.

It is the conclusion of this paper, therefore, that the most enduring impacts are likely to come from organisations that tackle social exclusion on both fronts – embracing a trading purpose that addresses the perceived needs of socially excluded groups, and allowing participation by them in decision-making and wealth creation processes. This will promote solutions more closely matched to actual (rather than imagined) needs while encouraging sustainability.

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[1] At the 2003 Social Enterprise Conference organised by Heriott-Watt University, Edinburgh, both Liam Black (Social Enterprise of the Year, 2003)

and Jonathan Bland (Director of the Social Enterprise Coalition) called for a "more than profit" mentality.

2 New Economics Foundation / Shorebank Advisory Services

3 Members of MCC co-operatives are self-employed.

4 Sheffield Community Enterprise Development Unit.

5 Bill Barker, October 2003. We met to discuss the constitutional provisions and rationale of NewCo.

6 Geoff Cox, Social Firms UK, Submission to CIC consultation, July 2003

7 Industrial Common Ownership Movement

8 Mary Lockhart, Co-operative Group, 2003 Social Enterprise Conference, Herriot-Watt University, Edinburgh.

9 www.cicregulator.gov.uk/coSearch/companyList.shtml - accessed 11th May 2006

10 The views of Social Firms UK (representing 300 enterprises), the Baxi Investment Trust and Sheffield Hallam University on the desirability of capital growth shares for entrepreneurs and employees in social enterprises were not acknowledged or reported in the final report on CICs (DTI, 2003). Patrick Barry at the DTI, and representatives from the Home Office and Social Enterprise Unit, concurred that the strong lobbying by charitable trusts, public sector bodies and voluntary sector advocates had influence the recommendations regarding shareownership (meeting, February 2004).

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