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## Social enterprise as a socially rational business

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# **Social Enterprise as a Socially Rational Business**

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## **Abstract**

What is the goal of social enterprise policy? Is it the creation of a 'not-for-profit' or 'more-than-profit' business movement? In institutional policy circles, arguments are shaped by the desire to protect assets for the community, while entrepreneurial discourses favour a mixture of investment sources, surplus sharing and inclusive systems of governance. This article uses data from a critical ethnography to offer a third perspective. Human behaviour is a product of, and support system for, our socio-sexual choices. A grounded theory of social and economic capital is developed that integrates sexuality into organisation development. This constructs business organisations as complex centres of community-building replete with economic and social goals. By viewing corporate governance from this perspective social enterprise is reconceived as a business movement guided by *social rationality* with the long-term goal of distributing social and economic capital across stakeholder groups to satisfy individual and collective needs.

# 1. Introduction

Different philosophical commitments induce a variety of approaches to ownership and control in social enterprises (Brown, 2006; Ridley-Duff, 2007). Entrepreneurial and government arguments differ over whether the goal of social enterprise policy is the creation of a 'not-for-profit' or 'more-than-profit' business movement (Haugh, 2005; Allen, 2005). In institutional policy circles, arguments are shaped by the desire to protect assets for community use (DTI, 2002, 2003; Pearce, 2003), while entrepreneurial discourses favour a mixture of investment sources, surplus sharing and inclusive systems of governance (Ridley-Duff, 2002; Harding and Cowling, 2004; Wallace, 2005; Brown, 2006).

This article argues that focussing on 'profit' arguments obscures underlying similarities and differences in organization across economic sectors. By critiquing Etzioni's normative-affective decision-making model (Etzioni, 1988), and drawing on a variety of studies (Collins and Porras, 2000; Collins, 2001; Ridley-Duff, 2005), further theoretical elaboration on the reasons for social enterprise diversity – as well as its locus - is developed by unravelling contradictions in the various definitions of social enterprise. The concept of *social rationality* is used to offer new perspective that accommodates the diversity found in the sector as well the role of the workplace in building the broader community.

In section 2, 'not-for-profit' and 'more-than-profit' discourses are discussed to reveal their underlying contradictions. In section 3, I briefly describe the methodology used. Theory is developed and presented in section 4 to extend understanding of social capital development. In section 5, these concepts are brought together in a framework that reflects the heterogeneity of social objectives that drive enterprise development. In section 6, I discuss the implications for practice and future research.

## 2. *Discourses in Social Enterprise*

In Pearce (2003:32-33), the various shades of social enterprise definition are elaborated at length. While there is near unanimity regarding the primacy of ‘social objectives’, different individuals and agencies elaborate a variety of ways to achieve them:

*...[in social enterprises] all assets and accumulated wealth are not in the ownership of individuals....1*

*...[social enterprises are] independent...and provide services, goods and trade for a social purpose and are non-profit distributing...2*

*...[in social enterprises] profits are used to create more jobs and businesses and to generate wealth for the benefit of the community...3*

These words articulate the so-called ‘not-for-profit’ discourse on social enterprise. On close examination, however, it becomes clear there is no ideological objection to the idea that assets and capital can be accumulated. It is apparent in the first quotation that collective rather than individual assets are preferred. In the second and third quotes, however, contradictions become apparent. One view is that profits should not be distributed; the other views profit distribution as the *purpose* of social enterprise. Haugh (2005:3), therefore, clarifies who is barred from receiving profits when she argues that “social enterprises are prevented from distributing their profits to those who exercise control over them.”

All these definitions share a tacit assumption that the purpose of a ‘not-for-profit’ orientation is to encourage high levels of reinvestment in economic activity. It is this aspect that has been widely promoted in the DTI’s own definition of social enterprise as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose” (DTI, 2002, cited in Pearce, 2003:32). While the DTI strategy, and Community Interest Company (CIC) legislation, does not directly ban distribution of surpluses to individuals (by allowing, for example, staff bonuses and employee share schemes), ‘not-for-profit’ rhetoric pervades both policy documents and academic debate (Borzaga and Defourny, 2001).

## Problems with the Not-for-Profit View

Profit-making *per se*, however, is not the issue. Indeed, in all the above quotations, there is an implicit assumption that profits are desirable so long as they can be channelled towards the collective needs of socially excluded groups, rather than already wealthy individuals.

This view of social enterprise, therefore, is *redistributive* with strong ideological commitments against individual appropriation of wealth. Such communitarian sentiments place emphasis on collective over individual good to develop arguments for greater civic and social responsibility (see Etzioni, 1995, 1998; Collins, 1997; Tam, 1999; Lutz, 2000).

Critics, however, draw attention to two problems. Firstly, hierarchies and oligarchies may rapidly develop that allow elites to control resources regardless of the precise ownership and control mechanisms established (Michels, 1961; Vanek, 1977; Cornforth et al, 1988; Kasmir, 1996). Secondly, emphasising collective over individual rights often becomes oppressive to individuals (and out of favour groups) by legitimating 'collective' solutions that are expressions of managerial interests (see Willmott, 1993; Griseri, 1998; Starrat, 2001; Parker, 2002; Johnson, 2006).

On the question of surplus distribution, many have argued that non-profit orientations, and particularly asset-locks, create long-term investment problems. Working for wages denies capital gains to the very people creating them and demotivates stakeholders through 'equity devaluation' (Major and Boby, 2000). This creates resentment towards stakeholders who appropriate benefits without making equitable contributions. Barred from capital growth, workers (sometimes led by managers) increase wage levels to extract surplus value so that private investments can be made elsewhere. The organisation slowly bleeds to death as a result of chronic underinvestment (Vanek, 1977; Cornforth et al., 1988; Major, 1996, 1998; Ridley-Duff, 2002).

A more robust model, it is argued, is one that uses both individual and collective ownership to entrench a variety of long-term interests that promote competition between short and

long-term priorities (Major, 1996, 1998). This binds the fortunes of all stakeholders to the sustainability of the enterprise. By doing this, thinking shifts towards 'equilibrio' between different interests to achieve balance between personal, collective and strategic goals (Oakeshott, 1990; Whyte and Whyte, 1991; Morrison, 1991; Watson, 1994).

As for managerialist tendencies, management hegemony creates the social environment in which economic and social benefits are denied to some individuals and groups. As Johnson (2006) points out, these problems are *systemic*: they reproduce themselves on a generational basis until hierarchical thinking is replaced by democratic controls (see Turnbull, 1994, 1995; Ridley-Duff, 2005). A key concern is how to avoid utilitarian thinking that legitimises the views of an elite (or majority) and unreasonably oppresses individuals and minority groups (see Willmott, 1993; Rawls, 1999; Parker, 2002; Gaus, 2003).

In summary, therefore, the 'not-for-profit' characterisation of social enterprise obscures a complex set of philosophical and moral commitments regarding who can profit from its operation and how these profits can be used. As a constitutional form, it legitimises collective rights/responsibilities that may lead to marginalisation of individual and minority group interests. This attitude to individual rights, however, is not held across the entire social enterprise sector.

### **More-than-Profit Views of Social Enterprise**

As Defourny (2001:23) acknowledges, "the NPO literature is not able to embrace the whole reality of the social enterprise". Firstly, 'non-profit' constraints do not apply to all organisations. Worker, marketing and consumer co-operatives distribute profits to individuals and have developed democratic know-how that encourages equity in the allocation of social and economic benefits (Rothschild and Allen-Whitt, 1986; Whyte and Whyte, 1991; Cornforth, 1995; Turnbull, 1995).

A clear distinction between co-operative and private businesses, however, remains.

Dividends are payable to those who make *both* a financial and a labour contribution. In worker co-operatives dividends are payable to those who both work and invest in the enterprise. In Spain, the concept of employment and wages has been eroded to the point where members receive monthly 'anticipos' (anticipated profits) that are adjusted at the end of each year (Ridley-Duff, 2005). In marketing co-operatives, suppliers combine their product offerings to enhance their market profile. Without committing their produce, however, no dividends are received. In consumer co-operatives, benefits accrue only to those who buy their goods through the enterprise. A person must walk the aisles to earn dividends. In all cases, labour investments are expected from members in return for individualised benefits. Conventional private companies do not require labour contributions before distributing surpluses to financial investors.

The realisation that some social enterprises are not ideologically hostile to profit-making or sharing surpluses has prompted high-profile figures to talk of a 'more than profit' orientation. At the Social Enterprise Institute Conference in 2003<sup>4</sup>, Liam Black (then Social Entrepreneur of the Year) asked the audience in his keynote speech to repeat after him 'profit is good'. This was echoed in the opening speech of Declan Jones (Director of the Social Enterprise Institute) and closing speech of Jonathan Bland (Director of the Social Enterprise Coalition) who both asked for a 'more-than-profit' mentality.

This flexibility is reflected in the definition used 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<sup>5</sup>, 2004:8)

Based on this definition, not only co-operative enterprises, but also majority employee-owned, and multi-stakeholder enterprises, can be included (Gates, 1998; Allen, 2005; Brown, 2006; Ridley-Duff, 2006). In these organisations, individual investment and

payouts are permitted. External investors may also be allowed a 'reasonable' return on an equity investment. Fair trade networks provide examples of supply chains based on trading relationships between worker, marketing and consumer co-operatives that deliver produce to supermarkets and retail outlets (see Jones, 2000; Allen, 2005). Gates (1998:13) argues that this combination of investor, worker and consumer ownership can alter management practices:

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

Gates stresses the role of individuals in shaping decisions. In a way that echoes anarchist economics (see Veblen, 1898; Ward, 1966; Rothschild and Allen-Whitt, 1986), individual voluntary action is seen as a way to balance the excesses of formal collective power by preventing monopoly control over resources, information and debating forums.

### Problems with the 'More than Profit' View

The view of social enterprise as a double (or triple) bottom line business places it in direct competition with the private sector. As John Young of Hewlett-Packard states:

*Our basic principles have endured intact since our founders conceived them. We distinguish between core values and practices; the core values don't change, but the practices might. We've also remained clear that profit – as important as it is – is not why the Hewlett-Packard Company exists; it exists for more fundamental reasons.*

(Cited in Collins and Porras, 2000:46)

Those 'fundamental' reasons are illustrated at Merck, discussed in a chapter about companies that are 'built to last'. A key reason, suggest the authors, is that all companies adopt a "more than profits" mentality (Collins and Porras, 2000:47). Merck's founder claims workers are "genuinely inspired by the ideals of advancement of medical science, and of service to humanity". Despite the popular pastime of attacking the profits of drug companies, Merck's activities merit comparison to social enterprise activity:



*...Merck elected to develop and give away Mectizan, a drug to cure "river blindness," a disease that infected over a million people in the Third World with parasitic worms that swarmed through body tissue and eventually into the eyes, causing painful blindness. A million customers is a good-sized market, except that these were customers who could not afford the product. Knowing that the project would not produce a large return on investment – if it produced one at all – the company nonetheless went forward with the hope that some government agencies or other third parties would purchase and distribute the product once available. No such luck, so Merck elected to give the drug away free to all who needed it...at its own expense.<sup>6</sup>*

When asked why it had done this, Merck executives pointed to the need to accommodate the views, and maintain the morale, of its scientists.

Stories of "great" companies driven by social values rather than profits create problems for those on both sides of the Atlantic seeking to distinguish social from private enterprise on ethical grounds (Collins, 1997; Laville and Nyssens, 2001). Rhetoric on social justice has a long tradition in liberal economics. In Friedman (1962), the egalitarian nature of the market is promoted even as strict obedience to the primacy of shareholder value is required from senior managers (compare Sternberg, 1998). Inside the company, however, strong divisions based on gender, ethnicity and class stand in contradiction to rhetoric about market democracy (see Kunda, 1992; Hennessy, 2003; Johnson, 2006).

Nevertheless, mainstream businesses, and not just the social enterprise sector, can lay some claim to effective stakeholder involvement, commitment to diversity, and practices that address social exclusion as part of their strategy for economic and social success (Kotter & Heskett, 1992; Collins, 2001; Vinten, 2001; Wieland, 2005). This overlap in values and social objectives, therefore, adds to the need for a theoretical framework that accommodates the grey areas between public, social and private enterprises.

### **3. Methodology**

The findings that follow are the product of a critical ethnography (Thomas, 1993; Dey, 2002). Data was collected between December 2002 and March 2004 from three social enterprises that have survived more than 15 years. For 7 months, I worked inside the primary case

company, Custom Products, for 20 hours per week. During this period, I maintained a daily journal to capture events that took place and the reactions they provoked. Additional data was collected from SoftContact Ltd, a cooperative trading for 22 years, and the Mondragon Corporacion Cooperativa (MCC), a group of 150 industrial and support cooperatives trading for over 45 years.

To analyse data, I transcribed and then elaborated journal entries before subjecting findings to critical reflection in a number of different contexts. I reviewed and typed up contemporaneous notes on board meetings, management meetings and staff training to assist theory development. NVivo was used for text analysis. Theoretical ideas were developed using a grounded theory approach (Glaser and Strauss 1967, Partington 2000, Locke, 2001). Findings were authenticated in four ways: by comparing them against newly summarised journal data; by searching for inconsistencies and consistencies with data from (and literature on) Mondragon; by testing theoretical propositions with members of the primary case company; by testing theory in interviews with members of SoftContact Ltd.

All methodologies have their limitations. Ethnography's strongest claim is that it can "penetrate the various complex forms of misinformation, fronts, evasions and lies' that are considered endemic in most social settings" (Gill and Johnson, 2002:145). Triangulation, of both methods and data, assisted in some contexts. In the sphere of behavioural and linguistic meaning, however, all claims are open to challenge. The critical ethnographer's goal is to capture authentic plausible emancipatory perspectives on organisational life, not to prove hypotheses (Johnson et al, 2004).

#### **4. *Social Capital and Social Rationality***

The concept of 'social capital' was popularised by Coleman (1988). Later, Putnam (1993, 1995) applied the concept to the process of 'civic engagement' to realise Habermasian ideas about debate in public forums (Habermas, 1974). Coleman and Putnam consider the private

and public aspects of social capital building. In applying the concept to social enterprises, however, the public aspect is emphasised (Evers, 2001; Laville and Nyssens, 2001).

Both draw attention to the issue of engagement across group boundaries and the ability to develop relationships between, and not just within, social groups. Pearce (2003) highlights how social capital can be deployed by one social network *against* others and is not, of itself, necessarily used for the common good. His rhetorical style, however, that shared values create solidarity between like-minded entrepreneurs is reminiscent of the unitarist outlooks of executive groups (compare Darwin et al, 2002; Johnson, 2006; Ridley-Duff, 2006).

The claim that strong cultures based on 'shared values' produce superior organisation performance is questionable. The emancipatory promise held out in the 1980s (Ouchi, 1981; Peters & Waterman, 1982; Kanter, 1983) has not been unequivocally validated by later research (Kotter and Heskett, 1992; Willmott, 1993; Thompson and Findlay, 1999).

Moreover, analysis of the social enterprise sector does not reveal widespread commitment to shared values. It is characterised by even more heterogeneity and diversity than is found in the private/public sectors (Wallace, 2005; Haugh, 2005; Allen, 2005).

Mills and Clarke (1982) helpfully differentiate between exchange and communal relationships. They argue that 'exchange' relationships are based on trading material benefits. Communal relationships, on the other hand, are rooted not just in trading material benefits, but also trading information and emotions that bring about mutual commitment. Communal relationships have the capacity to survive disagreement and are characterised by higher levels of emotion and conflict combined with effective processes for making-up (see Aronson, 2003; Tjosvold et al, 2005). If social capital is 'fragile', as suggested by Pearce (2003), this may indicate that social capital has not yet been established: the relationship is still at the 'exchange' rather than 'communal' stage of development.

Below I explore the issue of 'fragility' by critically discussing data samples from Custom Products. In particular, I show that rhetoric about 'shared values' may obscure, and even promote, low levels of social capital development.

## Empirical Data

Attitudes to civic engagement can themselves be by-products of social relations in the private domain. Ben<sup>7</sup>, a support services worker, reports on the way members of different work teams interact in both workplace and social settings:

*People are bonding inside the team. I went and got a card and cakes for Hayley's birthday and when I gave them to her she gave me a hug. Then I told her I had not had a good weekend. I was a bit cautious at first - I said all relationships have their problems - but then she opened up and told me about her mother having breast cancer and how this had affected her and her family over the last decade. I found myself explaining in more detail what had happened at home.*

*John was also there, and he opened up about the past. Harry and some other directors all have PE degrees (John, Harry and the other founder Reecey). They have this common bond between them through an interest in athletics. When I found out it was Larissa's birthday, we had a drink, and I gave her a birthday kiss on the cheek. These are little things. People are letting each other into their life a bit. This opening up is not just within our team. We had a drink after the management class. We were all chatting away and talking about Diane's son and the great battle she has over his schooling. I think she needed to get it off her chest.*

At Custom Products, semi-formal events were arranged to provide further opportunities to develop social capital. One of these was called a "community development day". Mixed impacts are noted in a magazine article:

*Being part of this elicits the warmth of social acceptance. And that is the point of the day. Most members of Custom Products are upbeat about the annual Development Day. Despite its focus on fun, it has a serious purpose. "People talk about it for months in advance and for months after," explains Harry [Managing Director]. It's true. And after the trip, photos appear on the notice-board and stories are exchanged over the lunch table. The day is based on the belief that having fun together is the best way to develop relationships that make a community thrive.*

*Not everyone thrives, however. Attendance is regarded as a community responsibility - repeated inexplicable absences may prompt the offer of a severance package. Avoiding it can damage your career prospects - and some people have avoided them for years. Staff who agree with the values are committed. Others leave quietly with "culture mismatch" on their HR record. Staff turnover is only just under the national average so stresses and strains exist.*

An analysis of staff turnover suggested it was twice (and perhaps at much as four times) as high as might reasonably be expected in a *bona fide* private sector company. Sickness levels varied across the organisation, but in the primary production unit they were twice as

high as the average for the industry through 2003. In 2004, this department was downsized: the majority of staff were redeployed to other departments.

Management expectations of commitment to 'community' values is evident in arguments for flexible working on the basis that 'this is the way we do things around here'. As Harry's notes for management classes reveal:

*Sometimes people come for interview and, because they really like a lot of what they see and hear in terms of the rights enjoyed by people... they withhold their real feelings about some of the responsibilities that people have to take on board. For example, people may really like the idea of the right to a share of the community's profits, but not the responsibility of full contribution to the community effort which may involve working some weekend days through the summer months.*

The impact of enforcing these 'responsibilities', however, affected people differently depending on non-work commitments. Harry had more scope to see his wife (Valerie), regardless of weekend working arrangements, because she too worked within the company. The issue was more complex for others. Chris, a warehouse worker, revealed that Judith:

*... discussed the reason she did not want a permanent job. Going permanent would mean that she would have to work weekends and she was not prepared to do this while she had young children at home. It was only when they reached their mid-teens that she had a change of heart. She then applied for a permanent position, but was still turned down. She was extremely down and within a few months had left for a new job.*

Ben experienced similar pressures. Having taken a permanent position, expectations that he should work flexibly started to affect his life outside work:

*There is sick leave taken for emotional reasons. If you are off for emotional reasons, they will do everything they can to support you. On the face of it the workplace is excellent, but stress leads people to be off sick. Work has been a factor in people going off. I could not say it was the sole reason, or even the biggest factor, but relationship problems arise because of work. Sometimes you have to work additional hours week-in week-out because you dare not say 'no'. You have to choose between work and relationships and that is detrimental to your whole life.*

For others, however, the workplace provided a sense of community and weekend working was accepted as a reasonable price for the 'community culture' on offer. They actively participated in 'socials' (the name given to outings after work) and frequently made public expression of commitment. On final reflection, however, these attitudes appeared to be more linked to a person's advancement within the company and the quality of their personal relationships with work colleagues. Those who developed close relationships inside the

company had fewer problems with 'community' expectations than those with strong commitments to family/friendship networks outside the workplace.

A key finding is that social capital is built through discussion of individuals' *private*, not public, lives. Debate about political or business practice is no substitute for the exchange of personal stories that reveal individual vulnerability. Moreover, the distinction between private and public is often blurred. People talk about work at home, and home at work. Many people engage more at work, and outside the home, because their personal lives are unsatisfying, or because family/friendship networks engage in civic activities to maintain their group relationships and identity. Conversely, people withdraw from the workplace and civic engagement when social relations (i.e. courtship, family-raising or a sense of alienation) make it sensible to do so.

Corporate expectations expressed through 'community' rhetoric, therefore, can create an *illusion* that social capital has developed. The rhetoric itself can promote 'fragility' by highlighting cultural values that, if not readily embraced, will (ironically) result in new forms of social exclusion. The finding that personal relationships are pivotal in the development of social capital raises the question of sexuality. In the next section, this issue is considered in more detail.

## **The Workplace as a Site of Sexuality**

The quality and desirability of personal relationships is paramount. As Hearn and Parkin (1987:57) point out, sexual behaviour is "an ordinary and frequent public process rather than an extraordinary and predominately private process". Social capital, therefore, is not an abstract and organisationally focussed activity; it is a product of interpersonal dynamics through which we project and develop our social status and sexual identities. Even when we are not seeking sexual contact at work, our activities are often oriented towards the maintenance of sexual relationships outside work, or the outcome of past sexual relationships (i.e. obligations towards children and former partners).

Our workplace activities, therefore, are not just directed towards the completion of tasks.

They are framed by the pursuit of socio-sexual goals. The way this occurs is illustrated below. Ben's relationship *outside work* broke down due partly to pressures *at work*. Within weeks, however, he found that approaches by women created new opportunities for intimacy. In the extracts below, he describes what happened after his work colleagues learnt of his difficulties:

*At lunch I talked with Hayley and opened up about what had happened - not massively - but enough to know what had happened at home. She was very kind. We amusingly talked about my need to get back into the dating game. I said that I thought I would wait a bit before I do that. I don't think this is all in the head but I get the feeling there is a sexual connection between myself and Hayley - not that I am going to act on it. She was telling me that I "wouldn't be lonely" and that I would have "no trouble". I said that I got frustrated with the games men and women play, sometimes even when they don't know it. She looked at me knowingly and said "Oh yes, men and women know when they are playing games!" I particularly remember her eyes as she said this - they became very narrow and quite piercing. It was light and it was nice. I don't mind.*

Hayley, possibly picking up on Ben's wish "not to act" on the sexual chemistry between them, starts to adopt bolder strategies to get his attention:

*Hayley kept coming up and interrupting me from time to time. I'm sure she didn't need to, she just liked to. She was wearing a lovely black top so I didn't mind being interrupted by her at all. We had lunch, and again I felt that there was a bit of sexual banter going on. At one point she said "Ben, are you flirting with me?" I said "Yes, just a bit", then I said "I trust you'll tell me to stop if you don't like it". She came straight over and stood very close to me, then giggled in a girlish way. She started asking my feelings about children, did I want children in the future? I also asked her. In my head I'm asking myself "what is going on here?" These are the kind of questions that you start to ask someone when you might have a romantic relationship.*

These findings are contextualised by an international study into sexual behaviour at work (Kakabadse and Kakabadse, 2004). Firstly, the authors report that 60% of people form intimate relationships at work of which one-third are non-physical (compare Hearn and Parkin, 1987; Farrell, 1994)<sup>8</sup>. Of these, four times as many people report long-term benefits than the reverse. Productivity also rises due to the 'exhilaration' of working with someone you feel close to (even when intimacy is not expressed physically), while only 20% of people report any objection to such relationships.

Courtship research sheds further light. Molloy (2003) found that 40% of women *choose their job to assist their search for a sexual partner*<sup>9</sup>. Women's magazines provide frequent advice

on sexuality at work (even in those targeting 'career-women') and contemporary romance novels have switched to storylines based on workplace romance (Farrell, 1988, 1994, 2000)<sup>10</sup>. Men also use the workplace to find sexual partners (Hearn and Parkin, 1987, 2001; Buss, 1994; Collinson and Hearn, 2001), but the range and frequency of men's sexual behaviour (relative to women) has frequently been exaggerated. Radical feminists claims regarding levels of sexual harassment are contradicted by an increasing number of studies that find low rates of harassment and high rates of consensual sexual behaviour (see Gutek, 1985; Farrell, 1994; Hoff-Sommers, 1995, 2000; Ackroyd and Thompson, 1999; Buss, 2002; Kakabadse and Kakabadse, 2004; Ridley-Duff, 2005). From another perspective, evolutionary psychologists (more often men than women) ignore or misrepresent cultural explanations for patterns of sexual behaviour to support religious beliefs or Darwinian social theory (see Buss, 1994, 2002; Pinker, 2002).

The majority of people *in relationships* report they are pursued for new relationships in their adult life (93% of men, 82% of women for 'long-term mating'; 87% of men, 94% women for 'short-term mating'). Overall, just under half (67% of men, 41% of women, for 'long-term mating'; 40% of men, 31% of women for 'short-term mating') report that these attempts succeeded at least once (Buss, 2002).

In the context of a debate about social capital, we are inevitably faced with a view that human behaviour is a product of (as well as a support system for) our sexual attitudes and choices. Theorising about social capital without linking work processes to sexual identity, relationships and obligations, denies the extent to which organisations are complex centres of community-building where we satisfy a wide range of economic and social needs (see Watson, 1994). As one conference delegate put it "perhaps this is the social enterprise that dare not speak its name?"<sup>11</sup>



Below, I accommodate these findings by developing a theory of social rationality. Grounded theory is used to develop a new framework for understanding human behaviour. I then relate this to practices and organizational forms observed in the social enterprise movement.

## Developing a Theory of Social Rationality

The concept of social rationality, and the process by which it is exercised, emerged from close study of three enduring social enterprises. At the highest level of abstraction, social rationality is the process by which people manage intimacy within personal relationships and social networks both inside and outside work. It is the private/public process through which people exercise (and are denied) choices over how their relationships develop.

Building on the socio-emotional work of Etzioni (1988), the theory examines how adherence to social norms (ethical behaviours and moral values) is driven by a desire to manage our relationships within a community. Etzioni contended that some decisions require logical-empirical thinking (rationalism), but that these were also 'infused' with normative-affective (emotional) considerations.

This is a significant departure from classical economic models based on 'rational man' derived from the writings of Smith (1776) and Friedman (1962). In traditional liberalism, the integrity of cognitive processes within each person is emphasised (see Gaus, 2003). Group influences are denied, diminished, or regarded as a corrupting influence rather than a driving force. The marginalisation of social thinking in economic theory finds expression in 'utility value' (Jensen and Meckling, 1976) 'opportunistic behaviour' (Williamson, 1975) and threats to efficiency and profitability (Donaldson, 2005).

The weakness of both Etzioni's model, and traditional economic models, is that they ignore (or do not make explicit) how sexual goals and obligations affect relationship and organization development. Close analysis of empirical data reveals that human behaviour can be classified as either **attention** seeking/giving and/or **assistance** seeking/giving.

Hayley's attention-seeking behaviour manifests itself as social (relationship oriented) even when there are hidden economic interests. Similarly, Harry's promotion of a "development day" encourages attention giving/getting as a support system for economic activity. Assistance seeking, on the other hand, manifests itself as economic (task oriented), but has measurable affects on individuals' socio-sexual goals. Ben felt he must assist the company as weekends, but this led to relationship breakdown outside the workplace. Judith, on the other hand, refused to assist at weekends. This protected her relationships outside work, but created problems inside work. Harry resolved these dilemmas by having an affair and then marrying the woman who gave him the most assistance in developing his business. By looking at Harry's, Ben's, Hayley's and Judith's choices as a recursive series of attention-seeking (and giving) and assistance-seeking (and giving) behaviours, it is possible to gain deeper insights into the way social capital develops.

Grounded theory involves phases of open, axial and selective coding to drive iterative theory development (Locke, 2001). The open coding phase involved micro-analysing samples of qualitative data taken from field journals, interviews, e-mails and other company documents. This produced a wide range of behaviours that were progressively organised through private reflection, discussion with research participants, presentations at academic conferences, research study groups and seminars, until the second phase (axial) and third phase (selective) coding was completed. The core concept to emerge from this process is *intimacy management*.

Table 1 shows a sample of behaviours. The data was analysed until "saturated" to establish the rigour of the framework and provides a comprehensive, but not exhaustive, list of behavioural strategies to get and give attention and assistance. Behaviours with an asterisk (\*) are most likely - on the basis of the data samples analysed - to be "sent" with the intention of increasing opportunities for intimacy. They are also more likely to be interpreted as a desire for a more intimate (or sexual) relationship, even if this was not the intention.

**Table 1 – Giving and Getting Assistance/Attention (Behaviour Analysis)**

<b>Assistance</b>	Physical	Meeting, Organising, Making, Avoiding	
	Intellectual	Organising, Theorising, Interviewing, Teaching, Evaluating, Noticing, Checking	
	Material	Paying, Awarding, Feeding	
<b>Attention</b>	Access	(Preventing)	Ignoring, Withholding*, Frightening, Forgetting, Withdrawing, Barring, Resisting*
		Non Verbal (The <b>withholding</b> of these behaviours, and the verbal/sharing behaviours below can be regarded as attempts to <i>deny</i> access and exclude individuals)	<b>Body Language:</b> Touching*, Looking*, Smiling*, Waving, Turning*, Flirting*, Approaching*, Copying*, Kissing*, Crying, Laughing*
			<b>Behaviours:</b> Meeting*, Reading, Offering, Trading, Attracting*, Employing, Inviting*, Consenting, Agreeing, Arranging, Sending*, Acknowledging, Awarding, Attending, Playing*, Questioning, Encouraging*, Giving*, Listening, Helping*, Impressing*, Supporting, Committing
		Verbal	Phoning, Storytelling*, Complimenting*, Writing, Apologising, Talking, Asking, Describing, Bantering*, Informing, Texting*, Arguing*
		Sharing	Confessions*, Contacts, Plans*, Reflections, Suggestions, Resources, Time, Space, Interests
	Information	Acquiring	Enquiring, Exchanging, Telling, Finding, Discovering
		Using	Understanding, Speculating, Organising
	Emotion	N/A	Intending, Caring*, Fearing*, Wanting*, Aspiring, Coveting*, Appreciating, Liking*, Enjoying*, Jealousing*, Worrying.

These behaviours occur when relationships are being developed. Not engaging in them has the reverse effect by reducing or destroying social capital. Individuals may also temporarily withdraw until they have more information or until they have deliberated with others about how to view a person. After information has been acquired and evaluated, it may be used to re-approach the other person and increase intimacy through inclusive behaviours.

In the early stages of a relationship, the primary focus is gaining (or giving) access to information. As the relationship develops, parties start to tell each other stories. Initially these reveal biographical information and future (public) aspirations. As time passes, however, stories reveal more personal information and private aspirations. Finally, particularly if both parties consent, emotions start to be affected and intimacy deepens. A

relationship can, however, break down at any stage of development, in which case both parties distance themselves from each other both physically and emotionally.

The workplace provides bricks to start building a relationship (by instituting formal relationships) but the cement that binds it is regular and frequent exchange of personal information, sexual banter and shared reflection about relationships inside and outside the workplace. By examining the process as it unfolds over time, the following high-level descriptions were developed (Table 2).

**Table 2 – Assistance and Attention Giving/Getting**

Class	Sub-Class	Non-Sexual	Sexual
Assistance	Physical	Giving and getting commitments to meet face-to-face, travel and relocation to facilitate meetings, and direct assistance with tasks that involve physical effort.	Sexual acts that fuel commitments and obligations to care for (and economically support) sexual partners and/or children.
	Intellectual	Giving and getting conceptual ideas that facilitate other tasks, or provide alternative ways of understanding.	Knowledge of giving/getting sexual pleasure that induces and maintains mutual commitment.
	Material	Giving and getting material support (money, resources). Giving and getting material gain (pay, profits, trading).	N/A
Attention	Access	Giving and getting access to people, intellectual ideas, resources etc.	Giving and getting touches and looks that are sexually stimulating. Displaying body parts that others find sexually stimulating (butts, cleavages, legs etc.)
	Information	Giving and getting information about people, ideas and tasks so that access can be facilitated or assistance offered.	Giving and getting sexual stories, knowledge and jokes.
	Emotion	Giving and getting access/information or assistance that facilitates emotional expression, discussion and understanding.	Giving and getting access or information that stimulates or communicates sexual feelings.

Thinking processes, therefore, can be viewed as a concurrent application of:

- **Economic Rationality**

Getting/Giving Physical, Intellectual and Material Assistance

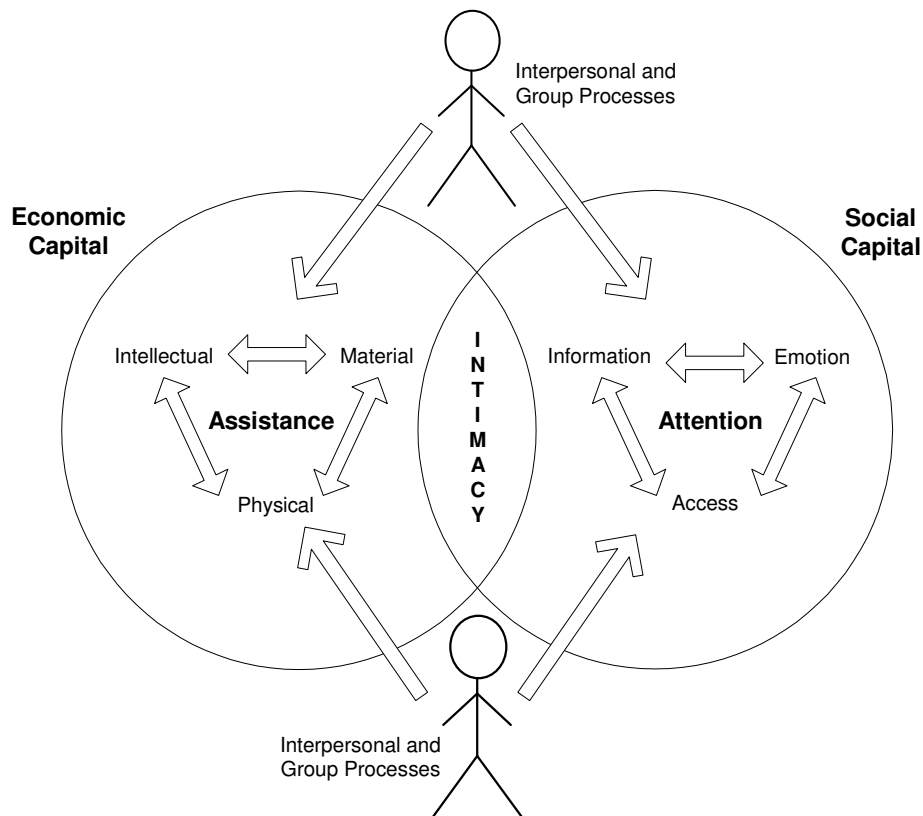
- **Social Rationality**

Getting/Giving Access, Information and Emotional Attention

Make or break moments occur when parties clarify their feelings for each other. Parties unable to communicate at an emotional level become stuck in a perpetual series of 'exchange' relationships (often superficial and short-lived). They struggle to develop the intimacy that leads to 'communal' relationships (see Mills and Clark, 1982). Economic rationality (giving physical, intellectual and material assistance) builds economic capital. Social rationality (giving access, information and emotional attention) builds social capital.

Communal relationships are those that accommodate the levels of emotion and communication necessary to survive repeated disagreement (Mills and Clark, 1982). The inability to develop them, therefore, acts as a barrier to the *distribution* of social and economic capital. In exchange relationships (based only on trading material benefits) perceived rejection and criticism is much more likely to trigger immediate withdrawal. As emotional bonds are weak, when economic benefits are not longer perceived, one or both parties withdraw. Where emotional bonds are stronger, the relationship may mutate until characterised by mistrust and aggression, with the goal of separation or punishment for emotional hurt. Alternatively, it may evolve into an even more intimate relationship as a result of dialogue triggered by the disagreement (see Ridley-Duff, 2005, Chapter 5).

Figure 1 summarises how economic and social capital develops.

**Figure 1 – Developing Social and Economic Capital**

In the next section, I develop the ideas above to construct a new view of social enterprise as a socially rational business.

## 5. Discussion

The theoretical model in Figure 1 clarifies several things. Firstly, the mutuality believed to underpin social capital is fragile if personal bonds have not been cemented by reciprocal *emotional* exchanges (compare Pearce, 2003). Measuring inter-trading activities, therefore, is not necessarily a good indicator of social capital (although it can be one possible outcome). The longevity of trading relationships, and the ability to survive disagreement, is a better indicator of the level of social capital.

Secondly, the model clarifies the recursive nature of economic and social behaviour. Any behaviour, when reciprocated, represents a thread that joins two people and potentially increases/decreases intimacy. Two parties giving and getting on all threads will be “in love”

but this is rare. Most relationships develop slowly over time and are carefully constructed subsets of threads, formed or broken as a result of changing dependencies and restricted opportunities for intimacy.

Groups of threads can be viewed as “bonds” that strengthen a relationship. Changing patterns of interaction and thread building/breaking account for changes in behaviour, personality, motivation and performance. This perspective has explanatory value when considering how behaviours change over time, and is more dynamic than genetic or social inheritance explanations. It accounts for rapid changes in behaviour that arise from changed intentions and opportunities at both inter-personal and inter-group levels (compare Blumer, 1969).

Behaviours that lead to intimacy may be adopted for their own sake. Alternatively, they may be adopted for instrumental reasons or because one party is obliged to fulfil contractual obligations. Behaviours that are adopted through obligation may become voluntary as intimacy increases. Also, the receiving party cannot always tell whether the behaviour has been adopted for its own sake (purely social), or instrumental (oriented towards an economic goal) leading to considerable ambiguity and potential for misunderstanding (compare Griseri, 1998).

Behaviour intended to build (or break) a relationship is *social rationality*. A person may undertake a task (or adopt behaviours) not because it is economically rational to do so, but because it is *socially rational* to effect changes. The relationship may be an end in itself (social) or a means to an end (economic). The outcome of socially rational behaviour is a change in the level of social capital. Behaviour intended to fulfil (or frustrate) a task is *economic rationality*, and the outcome is a change in the level of economic capital. Economic goals may impact positively, negatively or not at all, on social capital.

## Implications

This view of economic activity suggests new ways to measure economic health. Instead of measuring profitability or market value, the changing frequency and quality of physical, intellectual and material assistance reflects the underlying level of health in an economy. Economic capital is built by developing our capacity to give/receive intellectual, material and physical assistance. Social capital is built by increasing our capacity to access information that leads to emotional engagement. Accumulations of either social or economic capital (in exclusive social networks or financial reserves, for example) can be taken as indicators of social *ill*-health, a state of inequality and potential social division. In place of a private enterprise economy premised on the goal of financial capital accumulation, social enterprise economics is premised on equitable distribution of social and economic capital.

Governance and managerial practices, therefore, move towards surplus sharing and “equilibrio” (balance) rather than profit maximisation and capital accumulation. Economically, this might be measured through the number of investors, employees, customers and suppliers (divided into the collective value of their transactions). Economic health can also be measured by monitoring the *distribution* of surpluses across stakeholder groups, rather than levels of accumulation. Social health measures could include: monitoring the scope and quality of stakeholder involvement in corporate governance; changes in company membership; the durability and quality of relationships within family, business and friendship networks; the frequency and durability of consensual intimacy and sexual relationships.

Table 3 shows a conceptual framework developed from this analysis. Instead of viewing ‘social enterprise’ as a subset of the social economy, it can be viewed as **a set of business practices that distributes economic and social capital equitably across stakeholder groups to satisfy both individual and collective needs.**



**Table 3 – Framework for Assessing Socialisation of an Enterprise**

			<div> <div>Private Enterprise</div> <div> <div></div> <div> <div></div> <div></div> </div> <div>Social Enterprise</div> </div> <div> <div></div> <div>EQUILIBRIO</div> <div></div> </div> </div>				
<i>Stakeholders</i>			<i>Investors</i>	<i>Managerial Labour (Directors / Executives)</i>	<i>Productive Labour (Supervisors / Workers)</i>	<i>Customers &amp; Beneficiaries</i>	<i>Suppliers</i>
<div> <div>Private Enterprise</div> <div> <div></div> <div> <div></div> <div></div> </div> <div>Social Enterprise</div> </div> <div> <div></div> <div>EQUILIBRIO</div> <div></div> </div> </div>	Economic Capital	<i>Individual</i>	Surplus sharing (dividends) and access to a fair share of the capital created.	Wages/Income (above subsistence levels), surplus sharing and access to a fair share of the capital created.	Wages/Income (above subsistence levels), surplus sharing and access to a fair share of the capital created.	Product/service choice and influence over design, delivery and pricing of goods and services.	Fair contracts: win-win financial outcomes that promote sustainability.
		<i>Collective</i>	Corporate shareholding, capital growth, financial reserves and corporate investments.	Departmental and project-centred control over resources and use of assets.	Collective funds for education and skill development.	Consumer group influence in product/service design and delivery. Surpluses used to lower prices.	Fair contracts: win-win financial outcomes, social premiums or guaranteed prices that promote sustainability.
	- Access - Information - Emotion  Social Capital	<i>Individual</i>	Increasing levels of intimacy amongst individuals within stakeholder groups. Sufficient intimacy across group boundaries (through individual relationships) to promote mutual understanding and tolerance. A positive attitude to <i>consensual</i> sexual behaviour and parenthood.				
		<i>Collective</i>	Acknowledgement and representation in corporate governance. Intra and inter-group structures for debate, social contact and conflict resolution. A positive attitude to <i>consensual</i> sexual behaviour across group boundaries.				

## **6. Conclusions**

A socially rational business develops processes to build and distribute social and economic capital. If it is doing this, we can reasonably expect governance structures, business processes, and Key Performance Indicators (KPIs) to reflect this. It may also plan its operations so that its surpluses are reinvested and/or distributed on a continual basis. Its constitutional arrangements (or informal practices) will show reciprocal relationships that allow each stakeholder group to monitor KPIs relevant to their own social interests and debate these with other stakeholder groups.

Stakeholder control is less developed in the UK than other European countries. 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). Nevertheless, the number of authors arguing for risk-sharing/surplus-sharing models continues to grow. At the heart of alternative arguments is a position grounded in empirical research that organisation structures promoting ‘equilibrio’ (balance) between individual and collective interests across a range of stakeholder groups will yield better social and economic results (Ellerman, 1990; Major, 1996, 1998; Major and Body, 2000; Conyon and Freeman, 2001; Collins, 2001; Ridley-Duff, 2002, 2005, 2006; Allen, 2005; Brown, 2006; Johnson, 2006).

Multi-stakeholder perspectives also assume that managers are just one ‘pack’ amongst many, and that all stakeholder groups experience their own perceptual limitations due to bounded rationality (Simons and Hawkins, 1949). Governance objectives change. Rather than focussing on developing the skills of a unitary board, ‘best practice’ becomes the establishment of devolved centres of power integrated through carefully crafted governance systems to bring out conflicts of interest and resolve them through debate.

Programmes for management change can be developed by identifying practices that have frustrated the goal of “equilibrio” (balance). Instead of establishing criteria against which an enterprise may qualify as ‘social’, the framework provides an opportunity for practitioners to reflect on the domains in which practices are and are not driven by social rationality.

## **Applying and Using the Framework**

From a policy perspective, applying the framework can yield insights into the activities and impacts of an enterprise. The model encourages reflection on the equity of social control mechanisms (distribution of social capital) and access to various assets (distribution of economic capital). Profitability and task-completion is seen as a means to an end, but not an end in itself. The end sought is an increase in the capacity to give/get physical, intellectual and material assistance (economic capital), and increasing levels of access to information so that emotional exchanges take place (social capital).

Althusser once remarked that social theory needs to develop an understanding of both ‘production’ and ‘reproduction’ (see Barrett, 1991). In supporting this view, I nevertheless reach a different conclusion to Etzioni (1988). Economic or logical thinking is no more ‘rational’ than normative-affective thinking. Social rationality is recursively linked to economic rationality, and both are in evidence when the stories behind decisions are deconstructed.

In future research, cognitive and social psychologists might wish to explore the extent to which mutual and reciprocal behaviours (within and across social groups) can be quickly captured and measured. These can be correlated with other measures of organization performance to see whether intimacy – increasingly equitable and reciprocal attention and assistance - is consistently correlated with other measures of organisation performance. Tjosvold’s study provides a model for this. Co-operative conflict resolution was found to produce greater trust and confidence that, in turn, predicted perceptions and other measures of group performance (Tjosvold et al, 2005).

Lastly, researchers can deploy the framework to guide investigations into how enterprises distribute (or do not distribute) economic and social capital. It provides categories for analysis and reporting of findings in a way that is meaningful and relevant to social enterprise practitioners. This article, therefore, is a new social construction for understanding and researching social enterprise. Its usefulness and limitations lie in the way it represents the practices of those it seeks to study, and can be critiqued on this basis.

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<sup>1</sup> Evans et al. (2000) *Key Concepts, Measures and Indicators*, Middlesex University. Report of the Concise Project, Middlesex University.

<sup>2</sup> Policy Action Team 3 (1999) *Enterprise and Social Exclusion*, London: HM Treasury. Report of the National Strategy for Neighbourhood Renewal.

<sup>3</sup> Community Business Scotland (1991) *Definition of Community Business*, West Calder.

<sup>4</sup> Heriott-Watt University, Edinburgh, October 16<sup>th</sup> 2003.

<sup>5</sup> New Economics Foundation / Shorebank Advisory Services

<sup>6</sup> David Bollier and Kirk O. Hansen, *Merk & Co. (A-D)*, Business Enterprise Trust Case, No 90-013.

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- <sup>7</sup> Ethnographic characters in this study are constructed using data from more than one participant. This approach was adopted because of the sensitivity of the material and to protect the identity of participants inside the case study companies. Ben is constructed from four cases and includes some participant-observer data from my journal.
- <sup>8</sup> Hearn and Parkin (1987) report similar figures based on magazine surveys. Farrell (1994) reviews the broader organisational context (e.g. customer/supplier, student/student, student/teacher) and finds that two-thirds of long-term sexual relationships start in organisational settings.
- <sup>9</sup> Unfortunately, Molloy does not report the extent to which men change jobs to find marriage partners.
- <sup>10</sup> As the market for romance novels is 98% female, Farrell argues that demand for material satisfying female fantasies of workplace romance is indicative of how women see the workplace as a location to develop their sexual relationships (or at least their sexual identity).
- <sup>11</sup> Participant at the Social Enterprise Conference, Southbank University, London, 22<sup>nd</sup>-23<sup>rd</sup> June 2006.