



Third Sector Research Centre

Working Paper 26

## **Business or third sector?**

**What are the dimensions and implications of researching and conceptualising the overlap between business and third sector?**

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# Business or third sector?

## Abstract

This paper is designed to 'problematise' the business/third sector boundary in order to inform future research into third sector theorising or policy development. It sets out some of the reasons behind the development of the concepts of the 'third sector' and 'social enterprise' in the UK, and briefly shows the scope and limits of the different theories underpinning European and US-influenced research and practice. It also illustrates some of the many dimensions, motivations and values of the kinds of organisations to be found in this cross-over space, as well as the challenges and opportunities which this diversity creates for any future research or policy creation.

## Keywords

Social enterprise, social entrepreneur, non-profit sector, plural economy, charity, commercial enterprise, hybrids

## Introduction

The government-led promotion of a 'third sector' in the UK has resulted in both differentiation and joint application of policy and practice to what is commonly known as 'social enterprises' and the 'voluntary and community sector'. Other papers from the Third Sector Research Centre are considering the nature of the third sector or of social enterprise – how to measure their scope, their concept validity, activities and impact. This paper takes a critical look at one of the outer limits of the third sector – the contested and difficult boundary, continuum or overlap, with the commercial business sector.

This issue is not just a question of exactly where this boundary is located – who is in or out, and on what criteria – but it is also about the implications of creating any particular dividing line on future policy and practice. In other words, its chief concern is the impact of research and policy on those organisations that overlap or are hybrid between the third sector or business. It matters, for example, both practically and politically if such organisations are seen as part of a separate third sector or of a plural economy.

These discussions are therefore dependent on notions and theorising not only about the third sector itself, but also about the 'economy' (and also the nature of the broader idea of 'civil society' – although this area will not be discussed here.) The current conceptualisation of the third sector in the UK is informed partly by the US-influenced nonprofit space or 'sector' which is usually seen as being predicated on organisations that respond to market and government failure. The 'third sector' is therefore implicitly positioned in *opposition* to the private and public sectors. In some European traditions, the more economic forms of third sector activity have been rather seen as an intermediary space between different motivations and functions in society – whether arising from households, markets or the state; or as intermediary between different types or systems of economic activity – non-monetary, market-based or re-distribution (generally through the state).

Based on an initial dichotomy between for profits and non-profits, more recent US-influenced approaches have tended to identify continuums based on the relative primacy or linkages between social motivations and outcomes and profit motivations and their use. Similar conceptualisations have influenced government and finance providers internationally. The more European perspective rather stresses different and non-linear ways of carving up reality, with alternative concepts such as the 'solidarity economy' or the 'social economy'.

However, whilst both these approaches can be useful in explaining the motivations and impacts of different types of small and locally-based 'values-driven' UK organisations, they are limited in dealing with larger and non-locally embedded organisations and non-standard businesses. Examples include larger worker co-operatives, or complex hybrid organisations such as Café Direct which mix strong social value motivations and outcomes, stakeholders and/or shareholders with different mixes of financial return, relative levels of governance and control. Such organisations may call themselves by alternative terms such as 'social business' rather than 'social enterprise'. Some may prefer to see themselves as part of a plural economy, others as social enterprises or, yet others, as part of a third or 'social' sector.

The idea of a **plural economy** refers to a spread of business types that mix different stakeholders, governance models, and relative preferences for particular processes or outcomes and attitudes to profit use. It also recognises how certain networks or organisational forms are part of the functioning of mature economies, for example, trade associations, unions or standard setters. This focus has been developed by the Carnegie UK Trust in its *Inquiry into the future of civil society in the UK and Ireland* which looks at the scope and functioning of a 'civil economy'.<sup>1</sup>

Additionally, much discussion of 'social enterprise' or the social dimensions or outcomes of the third sector tends to subsume environmental values and impacts under a vague and contested 'social'. That 'social' is itself often quite narrowly conceived – often limited to forms of disadvantage; local ownership, empowerment or economic development; or to activities related to public service delivery. Organisations and businesses that see 'social' more widely, whether in terms of morality, ethics, or the nature of internal processes; or those which create outcomes that may affect everyone in society; or those who see their goals as re-visioning and re-creating economies – are therefore not easily understood or captured in existing concepts or discussions. An example might be an organisation that has limited profit distribution to finance providers and delivers financial products that work for *all* people (rather than just the disadvantaged) such as 'trusted' pensions.

Whilst this is obviously an area of academic interest, it is also of practical concern for people and organisations competing or co-operating for recognition and resources, benefiting from government policy and attention, or trying to create social, environmental or economic change.

## How is the 'third sector' understood in the UK?

The current concept, and hence practical scope of the third sector in the UK, has been determined primarily by the UK Government. Whilst implicitly drawing on the US-based notion of a third sector, distinct from the government and the private or mainstream business sector, the UK idea also differs by not being strictly associated with non-profits. However, as a definition, and particularly one that holds up to academic scrutiny, it is more pragmatic than conceptual. The Government uses it in relation to organisations that fall under different, but often overlapping and well-known, categories – namely those of *'voluntary and community organisations, charities, social enterprises, cooperatives and mutuals'*.<sup>2</sup> As such it is an umbrella category, or even 'catch-all' for administrative purposes that has asserted several similarities amongst its members; namely that they are:

- non-governmental
- value-driven
- principally reinvest any financial surpluses to further social, environmental or cultural objectives.<sup>3</sup>

The 'third sector' is also an evolutionary category since for example 'cultural objectives' were not present in the initial definition determined by the Office of the Third Sector when it was set up in 2006. The word 'value' in the context of 'value-driven' also begs the question of what values are we talking about, particularly since the preoccupation of government is in practice with social, environmental and

economic outcomes (seen in terms of value creation) than processes informed by and embedding moral and ethical values. (See related TSRC paper 25 *Value and the third sector* by Andrea Westall)

Part of the reason for carving up reality in this way was the Government's desire to bring together the workings of the voluntary sector and charitable activities across government, together with the Social Enterprise Unit in the then Department of Trade and Industry (DTI). This merging was probably a result of the similarity of such organisations' contributions to particular instrumental public policy aims, for example, tackling individual and area-based disadvantage or in relation to renewing public services.

The nature of the boundary then between the third sector and business is in effect between 'social enterprise' and 'business' and is therefore partly dependent on the understanding and scope of these terms.

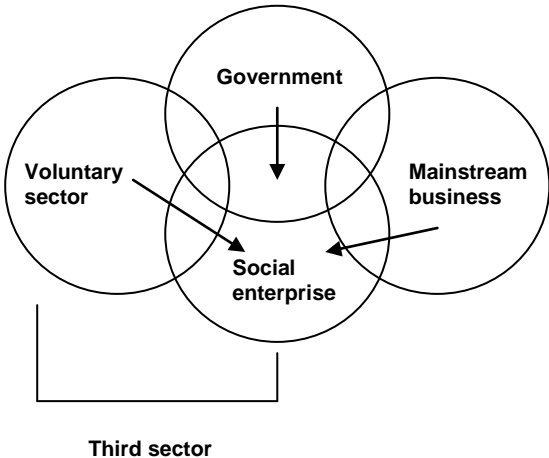
### Evolution of 'social enterprise' in the UK

Like the 'third sector', 'social enterprise' was also pragmatically, rather than conceptually, devised in the UK. It was informed by both US (enterprising nonprofits) and European-influenced (generally more co-operative and mutual models) theory and practice as well as attempting to include newer hybrid (between varieties of business shareholder or mutual models, processes and social or voluntary motivations) organisational and business models.

Back in 2001, this author wrote a book which influenced the UK concept of 'social enterprise' in this pragmatic way. *Value-led Market-driven* envisaged social enterprise as an umbrella category which referred to all those organisations found in the overlap between government, business and the voluntary sector, including co-operatives and alternative business models. Whilst predicated on a sectoral idea, it aimed to highlight an intermediary space being increasingly populated by trends or forces pushing towards the creation of more and often quite complex hybrid organisations that mix what were often believed to be separate principles (although not necessarily in historical practice).

Diagram 1 is a simplified and adapted version of that diagram.

**Diagram 1: The third sector and its overlaps with other sectors**



Source: Adapted from Westall, A. 2001 *Value-led, market-driven*. Institute for Public Policy Research.

This approach is similar to that of Billis (2010) who argues in a forthcoming book for three sectors that overlap and which have multiple hybrid zones. He has developed his earlier ideas of overlapping boundaries between voluntary organisations, business, government and the personal world (Billis, 1989).

There have been different ways to look at this diversity.

We could, for example, look at origins:

- the voluntary and community sector increasingly trading in order to develop appropriate funding mixes, including the use of government contracts (some of which were previously grants);
- externalisations from the state or hybrids with the state;
- people from a business background or training wanting to set up socially or environmentally-oriented businesses;
- developments from other economic or social movements such as co-operation and mutuality;
- community enterprise traditions.

There are also named 'types', some of which have developed their own trade bodies, such as development trusts, social firms or co-operatives.

Another way to divide up different kinds of social enterprise is by the relationship between outcomes and trading. For example, Alter (2007) usefully distinguishes between those organisations that cross-subsidise their social activities through unrelated and purely commercial activities, and those for whom the commercial activities relate, or are partially related to, furthering their mission.

Similarly, CAF Venturesome has identified three different ways in which the trading activity of an organisation relates to its social activity (Venturesome, 2008):

- Model One – a profit-making trading activity that has no direct social impact but gives some or all of its profits to charity
- Model Two – a trading activity that has a direct social impact, but has a trade-off between financial return and social impact
- Model Three – a trading activity that generates a direct social return in correlation to the financial return generated

They believe that this approach creates categories that are '*based on fact and not judgement*' and are practically useful for assessing appropriate management skills or for financiers to understand the nature of the organisations that they are investing in.

Environmental motivations and outcomes are often subsumed under 'social' although, for example, the technological approaches to renewables create business models that combine profit maximisation with demonstrable external impact. These models are another illustration of overlaps which create difficulties for clear demarcations on particular criteria.

Social enterprise commentators and representatives have attempted to divide or demarcate organisations on the basis of an undeveloped notion of 'social ownership' which partly relates to issues of governance, and stakeholder control. There are also more process approaches to social benefit such that one might want also to look at differences based on:

- how an organisation engages stakeholders and makes decisions or delivers returns for different stakeholders, and on what basis;
- how businesses or organisations with ‘social’ values and processes, rather than outcomes, create diversity and difference, for example, through co-operative or mutual structures or trusts such as Ove Arup or the ways in which goods and services are themselves produced, for example, fair trade, organics, or employing disabled people.

Much US-based literature focuses primarily on government and market failure, and hence on filling ‘missing’ markets. Some social enterprises, however, operate in mainstream markets as a way to transform market practices (for example, fair trade businesses).

And there are of course many hybrids which cannot easily be categorised and which fuse social value creation with social processes, and may have different levels or extents of external equity ownership by different kinds of ‘owners’ or stakeholders.

We could also consider non-monetary forms of social enterprise such as time banks, or local exchange and trading schemes which extend the idea of ‘economic’.

The tensions and differences between different kinds of ‘social enterprises’ in practice centre predominantly around notions of the ‘social’ – including whether or not the idea of ‘social’ is seen in relation to external outcomes, or as part of the processes and motivations through which the organisation runs (for example, as reflected in different models of ownership and governance).

Organisations may also move around and across any devised border as a result of changing circumstances, growth, decline or economic conditions. And they are not isolated – they may be part of complex networks or group structures with other organisational types. Or they might be owned by different organisations, for example, government, a voluntary sector body, a business or another social enterprise.

This diversity of organisational structures and values creates tensions which continue to be played out in discussions with different practitioners or government departments who can tend to adopt different parts of this ‘social enterprise’ space, depending on where their interest predominantly lies.

Overall, the language and scope of social enterprise seems to have narrowed since 2001, probably as a result of the government policy focus on disadvantaged areas, social inclusion and public service delivery as well as the pre-eminence of standard business models. The idea of plural business models has been under-developed, with primarily a policy focus on Corporate Social Responsibility (CSR) as a way that business engages with social and environmental issues. This bias may be behind the development and proliferation of language by different business models, using terms such as ‘social business’, or ‘ethical business’, to identify and attract attention to alternative ways of operating.

Practitioners have also sought, partly because of concern over this diversity, and particularly to create distinctions with ethical or socially-responsible business, to pilot a form of social enterprise label, namely The Social Enterprise Mark.<sup>4</sup>

**The Social Enterprise Mark** is ‘a label which tells customers about the wider social or environmental impacts they offer’ and to ‘differentiate themselves from private business and any corporate social responsibility schemes, or ‘greenwash’’. Organisations need to meet particular qualification criteria which are set out on the website. It is important to note that the focus is on

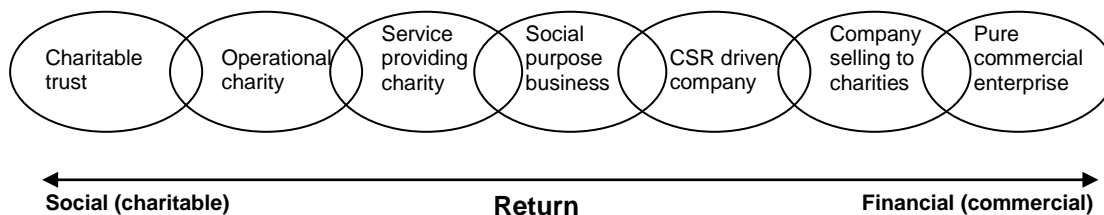




Social enterprise is here implicitly 'non-profit'. There is also very little discussion of exactly what a 'socially responsible' business is. Presumably, it covers what in the UK we would variously call, for example, social enterprises or social businesses.

The continuum model of business and nonprofits has particularly informed much social investment practice in the UK. For example, Bolton *et al.* (2007) present a spectrum of organisational models in their 2001-6 review of *The Venturesome Model* (diagram 3).

**Diagram 3: A spectrum of organisational models**



Source: Adapted from Bolton M., Kingston J., and Ludlow J., 2007

Here, the 'social purpose business' is probably meant to include noncharitable social enterprises and again organisations that tend to call themselves social businesses. It is unclear, however, where alternative businesses such as Ove Arup would sit, or why a company selling to charities is positioned between CSR and 'traditional for-profits'.

This kind of analysis is useful for considering the activities of voluntary sector organisations pursuing earned income strategies or outcome-oriented social enterprises. However, it does not easily incorporate processes (rather than outcomes) which are core to the 'social' element of activities, those organisations that are predicated on changing economies rather than meeting social needs, or those with complex profit distribution or dividend policies.

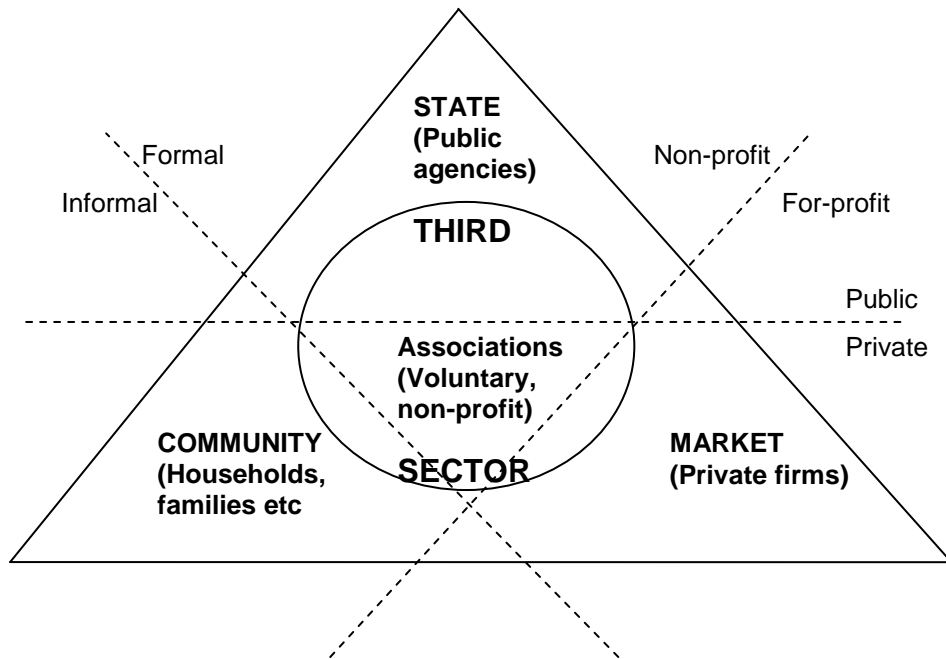
The dominant view in these continuums of 'social' is that of motivations around outcome or profit maximisation, primarily those that relate to disadvantage, local economic solutions, work integration, or public service delivery. This approach does not easily engage or emphasise those who see their role in changing the market rather than responding to market failure; in alternative markets or economics (more human or sustainable perhaps); those that focus on processes or values such as governance and employment models; or are concerned with outcomes which are relevant to all society. These approaches do not appear to engage well with collective or mutual solutions to economic production which share profit on a residual or dividend basis amongst members and are linked to more 'process' values such as democracy.

## European-influenced research

Perhaps we can look elsewhere for help. For example, a recent book on *The third sector in Europe* by Evers and Laville (2004) attempted to conceptualise the 'third sector' differently to a more US-influenced reliance on neoclassical economic assumptions and implications.

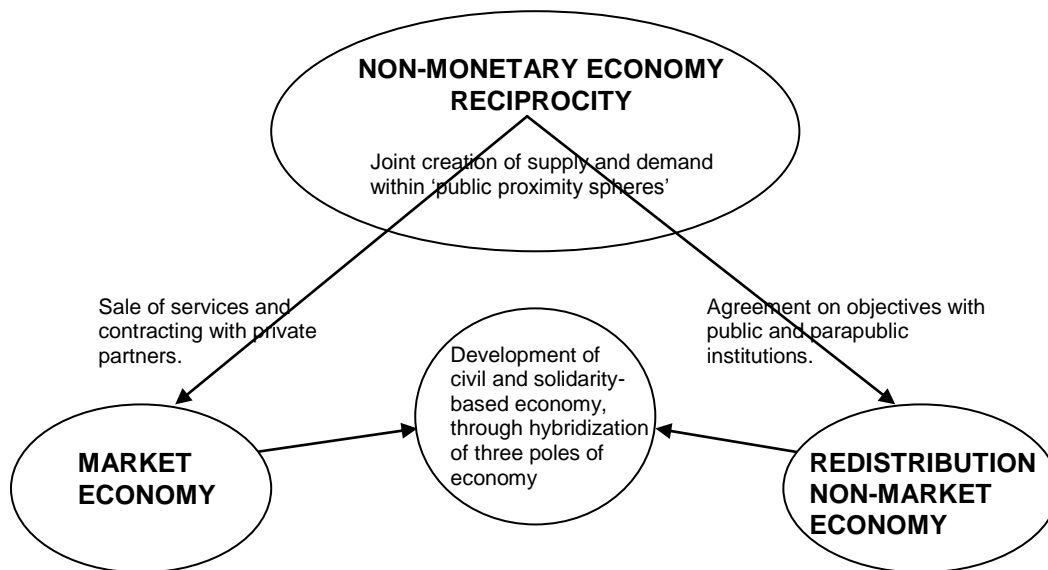
Evers and Laville therefore see the third sector as an intermediary space between different economies, following thinkers like Polanyi, of market; redistribution (usually state); and the non-monetary economy (within the home or based on reciprocity). Diagrams 4 and 5 show this way of considering the third sector.

**Diagram 4: The intermediary third sector space**



Source: Adapted from Evers and Laville, 2004 itself adapted from Pestoff, 1992.

**Diagram 5: The third sector as civil or solidarity economy**



Source: Adapted from Evers and Laville, 2004

The civil or solidarity-based economy in Diagram 5 arises from the hybridisation of all three economic principles with emphasis on forms of community governance, or the inclusion of non-monetary exchange, for example, in time banks or less formal communal support such as reciprocated baby-sitting.

Therefore decisions about any boundary or overlapping organisation cannot easily be considered on the basis of simple economic or specified social-outcome dimensions. There are also moral and political factors here as well as intrinsic 'social' values and processes which, at least theoretically, also distinguish such organisations from mainstream businesses providing goods and services and maximising profit only for shareholders or owner-managers. This approach begins therefore to include different parts of the diversity of hybrids or social enterprises.

## US versus Europe: the gaps and the implications

The tensions between the US-influenced and the European-influenced ideas arose in the development of the social enterprise 'sector' within the UK and continue to influence policy and practice. For example, some of the finance and funding community tends to adopt the US models, while the 'community shares' proponents tend to focus on local employment, trust and collective solutions.

Organisations that feel part of neither tradition, either ignore such debates or devise new terms for their identity – for example, 'social business', 'sustainable business', 'ethical' or 'environmental' business. It is interesting that many hybrid organisations tend to want to be seen as businesses rather than part of a voluntary or third sector, partly perhaps because their goal is often to change market structures and the nature of the economy itself.

This situation means that there are difficult and possibly different decisions to be made over who is or is not a social enterprise, as well as who is or is not part of the third sector. The two debates are not necessarily the same. Some social enterprises would rather, for example, be seen as part of the business-world for pragmatic, and not just ideological reasons.

These tensions also play out practically and differently across the UK regions. A study by McManus (2004) when finding a definition for the 'social economy' in Northern Ireland, found three different discourses in the English regions:

- 'trading' social enterprises – such as community development finance institutions (CDFIs)
- European bottom-up, local and focused on economic inclusion
- co-operative and democratic management

He saw the first discourse as being the social enterprise agenda being promoted by the UK Government; the second being about economic inclusion and enterprising localities, and the third about co-operative development.

Seanor *et al.* (2007) looked at how 'social entrepreneurs' saw, articulated and understood what they did. Whilst this work focused less on our boundary of interest, the research has practical implications and argues against simple continuums. Using diagrams to illustrate how social enterprise practitioners thought about what they did, the researchers found that people often rejected the linear

continuum model. They also found that practitioners encountered tensions when pursuing social and economic goals. In other words, there is not some simple 'blended' value or easy win-win outcomes. (See TSRC paper 25 by Andrea Westall, *Value and the third sector*, for a critique of blended value).

The authors also found that those interviewed focussed less on heroic individual or business-like models of social enterprise and more on multi-stakeholder or participative collective models. They also found that people adopted different language to describe what they did, depending who they were meeting and what their aims were.

One conclusion of this work was that linear thinking should be replaced with a more circular and holistic model of social enterprise, particularly as organisations become more mature and adopt complex governance structures which bridge stakeholder groups. This position is potentially similar to the European idea of an intermediary third sector space. Other practitioners are adopting more individualistic business models with social objectives.

## Conclusions and implications

The interests of government, finance and funding providers, and certain coalitions of interest, have dominated existing practical concepts of social enterprise and the third sector.

Theory has been influenced by either US-based notions of a division between the nonprofit and profit sectors, or more sociological and political approaches which emphasise alternative ideas about the economy or 'plural' economies. In these different viewpoints, the 'third sector' is therefore either a specific 'sector' or an intermediary space with organisations adopting different combinations of principles. Attempts to bridge the gaps between these two positions are happening, but seem to be running behind innovations in evolving organisational form and structure which may fit neither conception.

In this situation, therefore, there is a clear need to embed research and policy in evolving reality.

### Research implications

#### ***Look at and analyse actual examples of organisations or business that overlap the third sector/social enterprise/business boundary***

Research needs to firstly take a purely inductive and exploratory approach to all the dimensions, processes, outcomes and motivations of hybrid forms of organisational and business activity. We do not know enough about what actually exists and why. This is a necessary first step before attempts to create theoretical concepts or practical policy.

#### ***Theorising the third sector along with the economy***

More work should be done to conceptualise the third sector as well as different forms of economy, in order to better understand the practicalities and conceptual reasoning behind certain ways of carving up reality. The implications, possible reconciliation, or informed new theorising, arising from the European-focused and US-influenced approaches to understanding and practice, need further discussion and development. These different literatures also need to incorporate existing and potential future organisations and businesses that currently fit neither model.

Rather than the currently pragmatic and overlapping boundaries where social enterprise is seen as inherently part of the third sector, this paper has begun to show that this situation may be practically

and theoretically hard to maintain. Any theorising about the third sector or related practical mapping has to carefully consider the impacts or unintended consequences of making invisible or excluding some of the hybrid organisations that might be better seen and promoted as part of a plural business culture or contribute to broader understanding of economies and markets.

### ***Governance: the under-researched and weakly understood dimension***

Another key area of research is governance or social ownership, particularly since much decision-making over social enterprise and third sector activity is related to mission, stakeholder engagement, results of productive activity, profit use and control. How are these boundary organisations managed and governed? What are the pros and cons of different governance models on issues such as negotiating the needs of equity finance, on decision-making over plural values or conflicting outcomes, or on wider stakeholder claims for residual profit or control. The actual governance and practices of social enterprises has remained a black box which needs to be opened.

### ***What is social and what is environmental?***

The ideas of 'social' and 'environmental' should also be subject to scrutiny and research, since they have been limited in their application to particular social outcomes, often associated with disadvantage, or focused on public policy goals, such as regeneration or work integration.

### ***Organisations that change motivations and goals over time***

There are also organisations that cross the boundary between the third sector and business. Why does this happen and what are the benefits or disbenefits?

### **Government implications**

Government is particularly affected by this boundary issue since clear demarcations enable it to determine policies, for example, potential tax benefits or financial support, but may also disable it from being able to think through how to deal with complex and changing realities. For example, the idea of resilient economies may require the idea, not of a monolithic commercial business imperative, but rather that of plural business structures and motivations. Some social enterprises may better therefore fit into this arena both for practical reasons as well as in order to fulfil their goals. This approach therefore recognises the role of some social enterprises in transforming markets themselves and the players within them. Should such activities be part of the third sector or a plural economy or both?

### ***Reconsidering the third sector/business boundary***

Government has adapted its notions of the third sector or social enterprise to fit with current policy priorities. It has in effect narrowed the scope of the third sector at the same time as wishing to promote ethical markets and better ways of managing social, economic and environmental issues simultaneously.

Government could fruitfully support research of organisations that sit on or cross the boundary between the third sector and business, to expand understanding of what is possible, and inform any future policy towards more ethical markets, or to a more moral, resilient and sustainable economy.

### ***The implications of the 'social' in social outcomes***

The UK Government is particularly interested in social 'outcomes'. However, the current ideas of 'social' are limited and would benefit from further development. It also recognises that these social outcomes are not just created by the third sector. One policy implication may be that the boundary

between business and the third sector is less important than forms of taxation that prefer positive social, economic and environmental activities and outcomes, regardless of the organisation or partnership creating them.

### ***From outcomes to processes and values***

The danger of only focusing on outcomes is that it presumes that process does not matter. The presumed relatively 'better' performance of building societies in the recession; the trusted and competitive nature of John Lewis or Ove Arup; or the potential of proposed multi-stakeholder elderly care co-operatives to improve trust and dignity; suggest that the nature of businesses and organisations do matter. More research is clearly needed here but an implication for government might be to break the stranglehold in theory and practice of a particular and dominant form of business organisation, if it is shown that other models are better suited to changing times and complex economic realities. Some of these organisations are found within or on the boundary of the third sector, and are gaining more influence and scrutiny, while others are still seen as isolated parts of a homogenous business culture, or part of a 'distinct' third sector.

## Endnotes

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<sup>1</sup> [democracy.carnegieuktrust.org.uk/civil\\_society](http://democracy.carnegieuktrust.org.uk/civil_society)

<sup>2</sup> The website for the Office of the Third Sector (OTS) is  
[http://www.cabinetoffice.gov.uk/third\\_sector.aspx](http://www.cabinetoffice.gov.uk/third_sector.aspx)

<sup>3</sup> See the OTS website.

<sup>4</sup> See <http://www.socialenterprisemark.org.uk> for more details.

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## About the Centre

The third sector provides support and services to millions of people. Whether providing front-line services, making policy or campaigning for change, good quality research is vital for organisations to achieve the best possible impact. The third sector research centre exists to develop the evidence base on, for and with the third sector in the UK. Working closely with practitioners, policy-makers and other academics, TSRC is undertaking and reviewing research, and making this research widely available. The Centre works in collaboration with the third sector, ensuring its research reflects the realities of those working within it, and helping to build the sector's capacity to use and conduct research.

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## Economic and Social Impact

Assessing the economic impact of third sector organisations is a key research priority for TSRC. It is linked to our mapping and measuring of the sector, and has a particular focus on the role that third sector organisations play in delivering public services and contributing to general community wellbeing. We are engaged in a review of the wide range of existing methods and tools for measuring impact within TSOs including Social Return on Investment (SROI), blended impact measures and other adaptations of cost/benefit analysis. We will also develop sector wide analysis of economic impact of third sector activity and its contribution to the wider economy, including analysis of workforce trends, volunteering and third sector value.

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